

RENN'S  
PRACTICAL AUDITING

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L.W. Archer  
August 1910











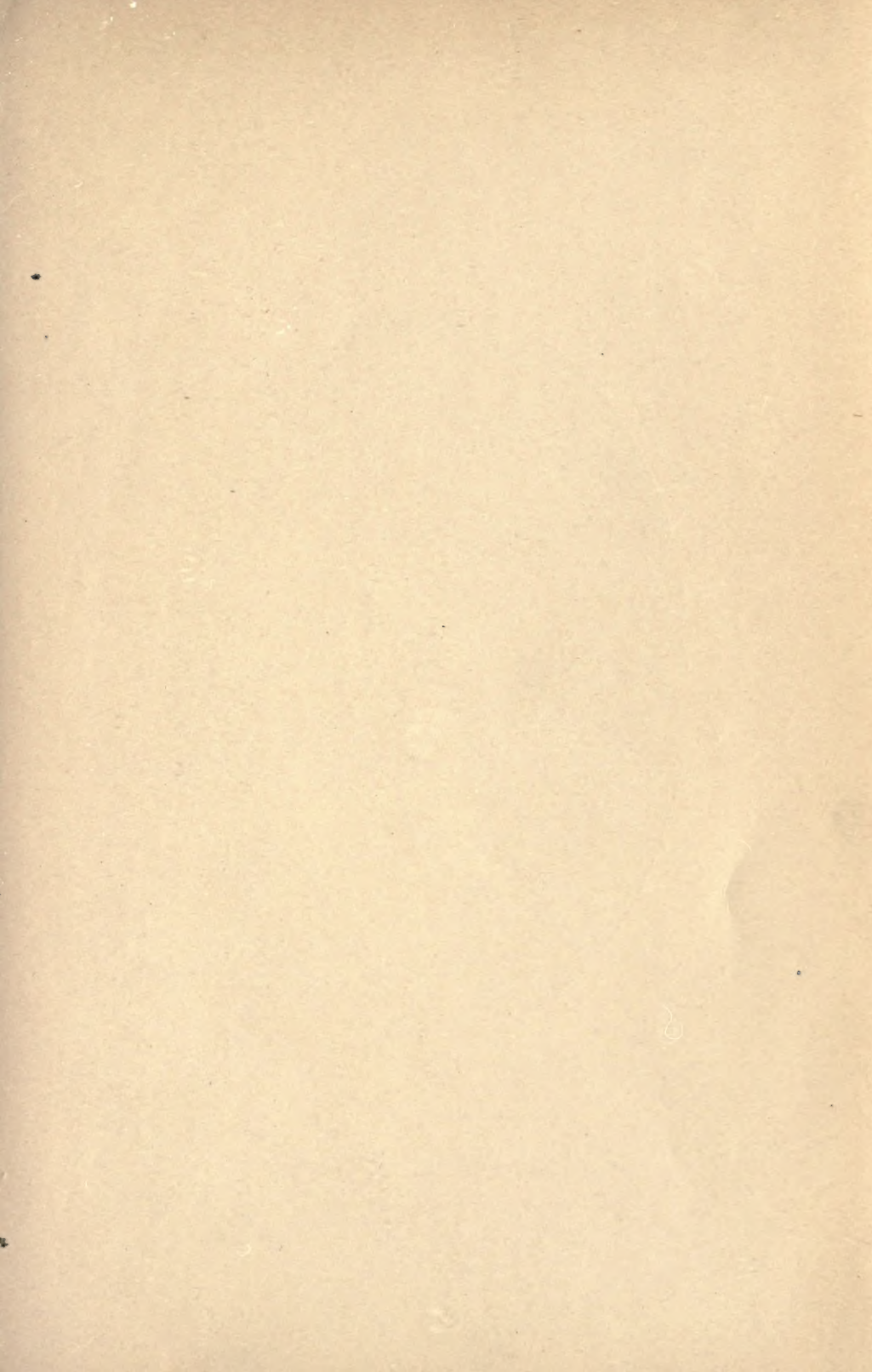






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George B Renny

# Renn's Practical Auditing

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A Working Manual for Auditors

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DESCRIBING IN COMPLETE DETAIL THE METHOD  
OF CONDUCTING A COMMERCIAL AUDIT,  
AND INDICATING IN PROPER ORDER  
THE SUCCESSIVE STEPS OF  
PROCEDURE,

WITH

A GENERAL TREATISE ON AUDITING

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BY  
GEORGE B. RENN  
ACCOUNTANT AND AUDITOR

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THIRD EDITION, REVISED AND ENLARGED

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PRICE THREE DOLLARS

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## PREFACE TO THE THIRD EDITION

The general commendation which the former editions of this manual elicited from the accountancy profession, the press, and discriminating students, proved that there is a demand for a work which goes direct to the point on the subject of auditing. This has encouraged the author to prepare a more extensive treatise based upon the same plan.

In this, as in the previous editions, one of the principal claims to excellence lies in its distinctively practical treatment of the subject. This book aims to tell the student what to do and how to do it, and in writing it, the intention throughout has been to make its contents clearly understood by the reader.

*The Detailed Description of a Commercial Audit*, presented in the logical order of the procedure to be followed, which stamped the earlier editions as unique in the literature on auditing, is reprinted in its entirety in Part II of the present manual. That part has also been elaborated in order to clear up such points as appeared from the inquiries of readers to be in the least doubtful; and an important feature has been added in the shape of an AUDITOR'S REPORT in complete detail, made out according to standard form.

The whole work has been amplified by the addition of a thorough exposition of the principles of auditing; with an elaborate treatise on EXAMINATIONS, INVESTIGATIONS, and PARTNERSHIP AUDITING; also the special considerations which govern auditing in different lines of business; so that it is believed that this new edition covers the subject adequately from every point of view.

GEORGE B. RENN.

1341 Dakin Street, Chicago.

July, 1909.





## PREFACE TO THE FIRST EDITION

All the literature on auditing published heretofore presupposes familiarity with the rules of practice on the part of the student; hence the information thus far obtainable upon this subject is of too indefinite a character to be understood easily by that large class of accountants who are otherwise excellently equipped for auditing, but who are lacking in experience.

The purpose of this manual is, therefore, to set forth minutely the details to be pursued in making a commercial audit, and to indicate in proper order the procedure to be followed.

With this brief explanation the book is respectfully submitted to ambitious accountants.



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Description in complete detail of the method of conducting a commercial audit, arranged to indicate in proper order the successive steps of procedure, and concluding with an auditor's report made out in standard form.

This division of the manual deals with the actual work of auditing; it tells at the beginning what to do first and how to do it; then the next step in order is similarly taken up and explained, and in this manner the student is guided step by step through an entire audit. Important principles involved in different features of the audit are called to the student's attention at the points where they apply. In conclusion, an extensive report is reprinted exactly as it was rendered in practice.

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EXAMINATION ON BEHALF OF AN INTENDING PURCHASER. The subject is treated in a very comprehensive manner. Some features of this section are: Purpose of the examination—Inspection of the statistical accounts—Period to be covered—Speculative considerations—The examination in detail—Accounts receivable and bills receivable—Stock of merchandise—Real estate, buildings and personal property—Good will—Patents—Copyrights—A condensed outline of an examination—Special directions in regard to construction of the Trading account and the Profit & Loss account—How to ascertain the amount of working capital employed—Estimating the inventory—Liabilities not necessarily any concern of the purchaser—Their significance in relation to the prosperity of the business.

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FINAL AUDIT FOR ADJUSTMENT OF PARTNERSHIP IN CASE OF DECEASED OR RETIRING PARTNER. Complete directions are given

for conducting this kind of an audit with due regard to the rights of each partner.

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## INTRODUCTION

By the term "Auditing" is meant the intelligent inspection of books of account and subsidiary records and papers, for the purpose of determining whether they are correct and complete.

The advantages of an independent audit may be summarized as affording a client the means for detecting any dishonesty there may be on the part of his employes, and, on the other hand, if none is found, he will learn from a disinterested source that his books are being kept correctly. Where inspection proves that improvements in the methods of accounting would be desirable, he will also be given expert suggestion along those lines.

In addition to the tangible benefits outlined above, it may be mentioned that knowledge of an intention to have the books audited at some time tends to discourage fraudulent practices—an effect which is not to be overlooked. Aside from any question of dishonesty, the anticipation of an audit inspires also a desire that the books shall be found technically correct, which prompts a degree of care in their preparation that would often be lacking were no inspection looked for.

In order to derive the best results from an audit, it should be entrusted to a professional auditor, for he will be independent of local influences and may therefore be relied on to treat matters in a disinterested manner.



## PART I

### GENERAL CONSIDERATION OF PRINCIPLES AND METHODS

The auditor should possess a thorough working knowledge of accountancy, in order to qualify him for interpreting correctly the work of others and for making intelligent criticism when necessary.

The elemental aim in auditing is to safeguard the income and to keep watch on the expenditures of the business. To that end the auditor must ascertain whether the following rudimentary requirements of accountancy have been complied with:

*First.* That charges have been made to the proper parties upon the regular books of account for everything of value which has passed to them.

*Second.* That all money received has been entered *in the cash book*, and that it was entered at the time when it was received.

*Third.* That no credit has been given to any one not entitled to it.

*Fourth.* That no money has been paid out without proper authority, and that no fabricated payments have been entered in the cash book.

*Fifth.* That the proper amount of money called for by the *cash book balance* is actually on hand—either in bank, or in the cash drawer.

*Sixth.* That the open Accounts Receivable (debtors' accounts) and Bills Receivable, represent correctly the difference between the charges for sales, etc., on the one hand, less the credits *through the cash book* and other authorized mediums, on the other hand.

*Seventh.* That all other assets acquired through the business are correctly recorded, and that they exist in fact. This includes inventories.

*Eighth.* That Accounts Payable (creditors' accounts) and Bills Payable are correctly and fully stated, and that they were incurred in the interest of the business. In the case of bills payable discounted, it must be ascertained whether the proceeds were entered in the *cash book*.

It will be observed that the trend of the foregoing is constantly to force the entry of cash receipts into the cash book, and to provide for the proper recording of values parted with.

Usually there is not much attempt to defraud by direct theft of merchandise, although the conscientious auditor will satisfy himself that proper safeguards are in force to prevent it. The principal efforts of an embezzler, however, are directed toward the abstraction of cash, and for that reason a special method for checking the cash book is suggested in this manual, viz.: that the cash book shall be checked inversely *from* the ledgers. This process will determine positively that the items entered in the ledgers as "cash" are so in fact *if they are found in the cash book*, because they will then have to be accounted for. Otherwise, if the auditor should remain content with checking the cash book into the ledgers, it might happen that all items tested in this way would check correctly, while still others would remain unchecked in the ledgers, falsely stated as "cash," but originating elsewhere, probably in the journal. This leads to a detailed consideration of the subject of correctness of the books, as indicated by their freedom from errors.



## ERRORS IN ACCOUNTANCY

There are three kinds of errors which may find their way into books of account, and it is the duty of the auditor to detect them when present, or to prove their absence. They are:

ERRORS OF PRINCIPLE.

TECHNICAL ERRORS.

FRAUD.

**Errors of Principle.**

This kind of errors divides into two minor classes—those of *omission* and those of *commission*. One of the most serious is the omission to provide proper reserves for depreciation of assets subject to wear and tear, or for shrinkage in values. Sometimes this results in the payment of dividends out of capital, a proceeding which has been construed by courts as criminal; and in one instance, at least, it has called forth an order from the court compelling the directors who voted the dividend to make restitution to the treasury of the corporation.

As an example of errors of principle through *commission*, we may cite the incorrect distribution of purchase invoices or of expense outlays, resulting in the loading of capital accounts with charges which should be placed to expense, or *vice versa*.

The question of provision for reserves will come to the auditor's notice through inspection of the balance sheet, and the point in respect to proper distribution is disposed of through analysis of the capital accounts and the various expense accounts.

**Technical Errors.**

These are the innocent mistakes committed in the mechanical details of bookkeeping—such as posting to wrong accounts, unintentional errors in footings or in carrying them forward, in transferring accounts, etc. The auditor will detect such errors through

the detail work of checking postings, verifying footings, and general inspection of the books.

### **Fraud.**

Under this head come the numerous schemes employed to falsify the books of account for the purpose of stealing cash or merchandise.

It would be impossible to describe all the expedients which may be used to accomplish theft, but among them are the withholding outright of cash received from cash sales or through remittances from customers; the "kiting" of such remittances; the falsification of cash book footings; the introduction of fictitious bills receivable; the manipulation of purchase invoices; the clandestine disposal of merchandise, and so forth indefinitely.

The withholding of cash from customers' remittances is usually concealed on the books by crediting the customers fictitiously with an equal amount through the journal, or the "merchandise returned" book, thus balancing the account and withdrawing it from observation.

"Kiting" begins with pocketing remittances when they are received and withholding credit for them until a later date; then other remittances will be held out and credit will be entered for those first withheld. Industrious embezzlers have been known to carry this process to great lengths, until an auditor appeared and exposed the trick by means of verification statements sent out privately to the book debtors.

As regards the other methods for defrauding referred to in this article, an exact observance of the rules for auditing set forth in this manual will circumvent them also.

## **CLASSIFICATION OF DIFFERENT LINES OF BUSINESS**

Although the general principles of auditing are the same for all lines of business, the methods to be followed in different audits

vary somewhat according to the classification of the enterprise. From their auditing features the various kinds of business may be classified as follows:

TRADING.

MANUFACTURING.

MINING.

BANKING.

The auditor should always have a fair knowledge of the working details of the business which he undertakes to audit. Where he is lacking in this respect he may acquire such knowledge by studying a text-book on accounting in that particular line.

## DIFFERENT KINDS OF AUDITS

Audits differ according to the immediate objects for which they are undertaken; the following are regarded as the principal kinds:

*The Periodical Audit*, to determine the general accuracy of the books.

*Investigation*, on account of suspected fraud.

*Examination*, on behalf of an intending purchaser, to determine the earning capacity of a business; or for a creditor, actual or prospective, to establish the correctness of the balance sheet.

*The Final Audit*, for the purpose of partnership adjustment in the case of a retiring or deceased partner.

There are other conditions that call for audits, but those above mentioned are the more usual cases.

A complete description of all the various kinds of audits, together with their possible ramifications, would prove entirely too complex and confusing to the student. For that reason, and because the greater number of audits are made merely for the purpose of ascertaining the general correctness of books of account, it is believed by the author that a detailed description of

THE PERIODICAL AUDIT will serve best to familiarize the student with the principles and methods of auditing. In accordance with this idea the detailed instructions in this manual are limited in the first instance to a specimen audit of that kind. However, to make the manual complete, there have been added supplementary instructions in regard to other kinds of audits, which, considered in connection with the detailed directions preceding them, will qualify the student to carry out any one of the audits mentioned.

In concluding this chapter a few words in regard to the auditor himself will be in order.

### THE AUDITOR'S RELATION TO HIS CLIENT

The auditor's relation to his client is of an extremely confidential nature, and all information obtained by him through that relation must be held inviolate. Nothing can be more out of place than a garrulous auditor.

Sometimes there is a disposition on the part of young auditors to make impetuous criticisms and suggestions. They should defer all comments until the audit is completed, for something may develop meanwhile to modify their hastily formed opinions.

### THE AUDITOR'S RESPONSIBILITY

There is no record of any legal decision in this country fixing liability upon auditors for certifying to inaccurate or untruthful statements. Where deliberate mendacity could be proven there would probably be ground for action, but manifestly it would be a hard matter to establish the "intent" in such a case.

Virtually this makes the public dependent upon the personal integrity of the auditor for the truthfulness of statements contained in his report, which imposes a moral responsibility that he should not attempt to evade in any particular. *His reports should be complete, definite and absolutely correct.* Only a high



professional standard will bring him business of the desirable kind, as no auditor can hope to be permanently successful unless he commands a reputation for perfect reliability in his professional capacity.

## THE AUDITOR'S ATTITUDE TOWARD THE OFFICE STAFF

The auditor should conduct himself courteously toward the office force, so far and so long as they enable him to do so consistently. While it is true that his position is sometimes made unpleasant through the boorish attitude of some of the staff, it does not help matters to be openly resentful; and, in passing, it may be remarked that sometimes auditors are the authors of their own misfortunes in this respect, through an assumption of superiority which engenders antagonism.

A great deal may be accomplished in this direction by the auditor himself setting an example of gentlemanly deportment. This does not mean, however, that he should yield one iota of his freedom to investigate to any extent any "lead" which he may desire to follow; on the contrary, he must regard himself as an independent agent, and proceed without fear or favor.

## VOUCHERS

A great many business concerns use their own form of voucher for disbursing cash, the same being approved and certified as correct by certain officials or authorized employees. While this is convenient and desirable, it should be understood that an invoice itself, if properly made out to your client and duly approved, is equally competent as a voucher. Therefore, wherever this manual calls for vouchers either in support of cash payments or for journal entries, *any* memorandum which will establish the validity of the transaction should be accepted as satisfactory. Your report, however, should suggest the introduction of regulation vouchers, if considered desirable.

## ANALYSIS OF ACCOUNTS

For the purpose of analyzing the various expense accounts and capital accounts, use paper ruled in a series of parallel debit and credit columns. At the top of the sheet write the caption of the account under analysis, and sub-head the classification columns; then from the books of original entry post the items into the proper columns of this analysis sheet; when completed, the net balance of all the columns combined should equal the amount of the account as shown in the ledger. This analysis may be made at the time of checking the invoices against the particular items in the books, or it may be made a detail by itself; the former is the preferred method when you have an assistant. Some auditors advocate the above method of checking all the general ledger accounts, but that is not necessary, inasmuch as the items in the general ledger accounts, including expense and capital accounts, should *all* be checked against the books of original entry, and this would consequently be mere duplication of work. This analysis, it should be understood, is chiefly for purposes of comparison; the audit proper is accomplished on these accounts, as well as on the others, by first verifying the correctness of the items in the books of original entry and then checking them into the ledger.

## THE CONTROLLING ACCOUNT

The Controlling Account is used in auditing to prove up the personal accounts by totals instead of checking them by individual items. (Where it is practicable, there should be a separate controlling account for the personal accounts receivable, and another for the personal accounts payable; but where the books are not so arranged as to make this expedient, it will be satisfactory to make one account answer for both.) Begin with the total sum in the personal accounts as shown by the trial balance of the initial date, then post to the respective sides of the account the monthly footings, during the period under audit, of such books and columns as are posted exclusively to personal accounts. Should there be any book in use, however, that is not columnized in such a manner as to keep the personal account items separate from those relating to general ledger accounts, the personal account items from that particular book must be posted individually to the controlling account. After all postings have been made in this manner, the net balance of the controlling account should be in exact agreement with the total of this class of accounts as shown by the trial balance of the terminating date. If found so, it establishes the aggregate accuracy of the personal accounts.

Now, to prove their individual accuracy, take off statements of every open account embraced within this general summary, and mail them yourself to the various debtors, with the request that they check them over and return them to you, either endorsed "Correct," or with notation of any differences. To make these statements effective they should be an exact transcript of the face of the ledger, particularly so far as relates to credits to customers; and the various classes of credits should be designated exactly as they are entered upon the ledger, i. e., cash should be designated "Cash" and other credits by the name credited upon the ledger. This form of making up the statements will



not only serve to prove the correctness of the *amount* of the account, but will establish quite effectively the truth of the component parts. In fact, this is the proper method for determining whether all cash receipts from customers have been entered upon the cash book, provided the customary precautions are also taken against allowing improper credits in this class of accounts.

You may also attain this result in effect, but with considerable less labor, by carefully checking the bookkeeper's monthly statements to customers with the ledger accounts, and mailing them yourself, with a printed slip, requesting each customer to check them over and return to you, endorsed either "Correct" or with notation of any differences.

When the statements sent out to customers for comparison are returned to you, there will probably be exceptions noted on some of them, but your judgment will guide you as to whether they are of a character to require further investigation or not. Among a large number of accounts an occasional difference may exist without impropriety, though it should, of course, be susceptible of explanation.

On books of account where the sales accounts and purchase accounts are not kept separately, it is sufficient for practical purposes to treat the total personal account debits as accounts receivable, and the total credits of the same class as accounts payable. The technical distinction need not be drawn except in case of liquidation, when it may become necessary to make precise separation.

The outline of an audit as presented in this manual is based upon a set of books containing separately a general and a personal ledger, the contents of the personal ledger being represented in the general ledger by a controlling account. If the ledgers are not so separated, you must use your discretion whether it will economize time and labor to construct a controlling account independently, or to check all items in detail.



## ILLUSTRATIONS OF CONTROLLING ACCOUNTS

### ACCOUNTS RECEIVABLE CONTROLLING ACCOUNT

| 1907  |    |   |         |              |              |
|-------|----|---|---------|--------------|--------------|
| Jan'y | 1  | Balance, Total Accounts Receivable<br>per Trial Balance.....                          |         | \$ 85 376 45 |              |
|       | 31 | Sales Book Debits January S.B.  | 15      | 52 872 90    |              |
|       | 31 | Journal " "   | J. 8    | 1 260 72     |              |
|       | 31 | Cash Book " "   | C.B. 10 | 140 53       |              |
|       | 31 | Sales Book Credits " (Returns) S.B.   | 15      |              | \$ 845 94    |
|       | 31 | Journal " "   | J. 8    |              | 5 486 23     |
|       | 31 | Cash Book " "   | C.B. 10 |              | 66 118 45    |
|       |    |   |         | \$139 650 60 | \$ 72 450 62 |
|       |    |   |         | 72 450 62    |              |
| Feb'y | 1  | Balance.....  |         | \$ 67 199 98 |              |
|       |    | Proof: Agreement with Personal<br>Accounts <i>debit</i> balances<br>on Trial Balance. |         |              |              |

## ILLUSTRATIONS OF CONTROLLING ACCOUNTS

### ACCOUNTS PAYABLE CONTROLLING ACCOUNT

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**AUDITOR'S WORKING SHEET**

The form of Working Sheet illustrated opposite is used by auditors for classifying the trial balance into the various schedules which are made a part of the report; such as the Trading Account, Profit & Loss Account, etc. It serves also as a convenient medium for rating Accounts Receivable as "good," "doubtful," or "bad."

This form can, of course, be extended to any desired length by using wider paper and adding more vertical columns.

When taking off trial balances it is best to write them on the working sheet form in the first instance, and thus save the labor of transcribing them afterwards.



# AUDITOR'S WORKING SHEET

[illegible]

**TURNOVER**

By the term "turnover" is meant the cost of goods sold during a certain period.

The turnover for a period is ascertained in the following manner:

|  |             |
|--|-------------|
| Inventory, January 1, 1905.....          | \$15,763.87 |
| Purchases during year 1905 .....         | 46,143.22   |
|  | <hr/>       |
|  | \$61,907.09 |
| Deduct Inventory, December 31, 1905..... | 13,376.04   |
|  | <hr/>       |
| Turnover .....                           | \$48,531.05 |

## PART II

### PRACTICAL AUDITING

*Description in complete detail of the method of conducting a commercial audit, arranged to indicate in proper order the successive steps of procedure, and concluding with an auditor's report made out in standard form.*

### SPECIAL INSTRUCTIONS

For the sake of brevity the two dates limiting the period under audit will be referred to respectively as the "initial date" and the "terminating date."

Select a well lighted location to work in, and reserve to yourself ample space for handling the books and papers.

In a suitable note-book make memoranda, as you proceed with the audit, of such particulars as you will require when making up your report after the audit is completed. One of the first points to set down is a complete list of the books in use, giving their titles, and where the titles do not clearly indicate it, their purposes as well, together with the names of the clerks who are responsible for the work contained in the individual books.

With a rubber stamp, bearing the word "Audited" above your name, stamp conspicuously all loose papers of a fulfilled character when you inspect them; such as returned bank cheques, receipts, invoices, paid notes, pay-rolls, and other vouchers. This will forestall any possibility of the same vouchers being foisted

upon you a second time in support of disbursements. However, it is not permissible to stamp securities in this manner, and it is therefore necessary to observe caution when inspecting bills receivable, stocks, bonds, mortgages, and securities of all kinds, to the end that you do not list them more than once.

Adopt a personal check-mark, and check all items and footings (preferably with red ink) when you take them into account during the audit.

If you meet with an erased or doubtful item in any of the money columns, ascertain what it should be, and then write the correct amount above it in red ink. This will detect any erasures or alterations which may be made after you have audited the items, as such changed items will not bear your red ink identification marks when you review the books.

Be on the alert, when following footings from page to page, to see that they are properly carried forward, both as to the amounts and as to their location in columns.

Verify all footings in all books of original entry.

All books of original entry except the cash book should be checked *into* the general ledger or the Controlling Account, but the cash items should be checked *from* the general ledger or the Controlling Account *into* the cash book.

Re-foot all personal ledger accounts from the point where last ruled up.

Prove all footings of all general ledger accounts, balanced or unbalanced, during the entire period under audit.

Inspect the general ledger to see that every item therein has received your check-mark.

In case you find errors on the books of account, make memoranda of the same upon your note-book, but do not make correcting entries upon the books unless you are authorized to do so.



A general principle to be observed in auditing is to guard against improper or fictitious credits in any account to which cash is posted on either side.

## ORDER OF PROCEDURE

The following order of procedure for making an ordinary commercial audit will economize time and accomplish the best results; but, when conditions make it impracticable to follow these directions exactly, you must accommodate yourself to circumstances.

It will be observed that this outline of an audit is classified to accord with the basic books which make up a typical set of books of account. There are establishments, however, where some of these principal books radiate into special or auxiliary books; in such cases the same methods of auditing will apply to the auxiliary books as would be employed on the particular class of items contained in them, were those items entered upon the main books of account.

## THE CASH BALANCE

Where the engagement to make the audit is entered into some time in advance of the terminating date, it is altogether the best plan to deposit in bank all funds on hand at the close of the last day, in order that the bank account shall constitute the entire cash balance of that date. The bank pass-book should then be written up, and reconciled immediately with your client's books.

If the above method is not deemed feasible, however, the next best plan is for the auditor himself to balance the cash on the night of the terminating date, and at that time to assure himself that the proper amount in some form or other is at hand to substantiate the book balance. As a part of this method, he should get the bank pass-book written up not later than the day

following, and should make reconciliation with the bank immediately on the return of the pass-book.

If you begin the audit some time after the terminating date, without having previously balanced the cash, as directed heretofore, the proper course is to balance when entering upon your work.

First, count the actual currency on hand and list same, then add any memoranda that may be carried as currency. Inquire into the authority for all advances represented by these memoranda. (By thus listing the currency in advance of balancing the bank account, you will avoid the risk of currency having been replenished through a cheque not recorded.)

Second, list cheques on hand, after having assured yourself that they are entered upon the cash book prior to the point where balanced.

Add to the above items the balance in bank, as shown by cheque book or wherever recorded.

The sum of the foregoing three items should equal the cash balance, of which a summary should be incorporated in your report.

To arrive at the cash book balance, you should verify carefully the footings of that book from the terminating date to the present, confirming the final footings in red ink, and with your check-mark. Compare the result with your summary of actual cash, previously made.

The disbursement side of this intervening period should be audited later in precisely the same manner as you test the space under direct review, namely, with returned bank cheques; and where the distribution is made direct upon the face of the cash book, with vouchers or other competent memoranda.

As the receipts side for this additional period is not held in check by the Controlling Account, it is necessary that you apply special methods to its test when making the audit.

After seeing to it that all cash sales have been entered up to date for this extra period, it is best to prove the face of the book by the inverse process of checking into the cash book by individual items the deposits made in bank during this time; and in similar manner follow into the book from their place of record such other items as should appear upon the receipts side of the cash book; namely, cheques on hand and currency disbursed or remaining on hand.

Sometimes you may meet with the condition that the cash balance of a certain date is not recorded. To determine what it was at that time, add to the present balance the total disbursements made since the date in question, and deduct the total receipts during the interval—the net difference is the balance sought.

### THE BANK BALANCE

As soon as possible after balancing the cash you should get the bank pass-book written up, and when returned to you reconcile it with your client's account by deducting the outstanding cheques from the balance shown by bank statement. The best way to accomplish this is to arrange the returned bank cheques in numerical order, and then from the missing numbers construct the schedule of uncleared cheques. Also see whether the returned cheques are properly endorsed by the payee, and stamped by the bank as having been paid.

The bank balance should be stated on the balance sheet at the net amount shown by your client's books, provided reconciliation has proven it to be correct. The suggestion at one time made that it should be stated "gross" with an offsetting liability to cover the outstanding cheques, does not merit any consideration.

### TRIAL BALANCES

After you have verified the cash and bank balances as directed, the next step in point of importance is to secure trial balances of



the ledgers. This will serve the double purpose of familiarizing you with the system of accounting in use as indicated by the lay-out of the accounts, and will also provide you with an indisputable abstract of the ledgers as they stood at the date of the trial balances. Should any alterations be made subsequently in the ledgers the abstract in your possession will direct attention to the change.

If trial balances of the initial date and of the terminating date are at hand, you can make use of them for present purposes as you find them; but, where they are not at hand, it will now be necessary to take off balances of both dates limiting the period under audit. These should be set down (preferably) on the working sheet form of trial balance paper, illustrated in Part I.

For the purpose of verifying the personal accounts receivable, as described in the article on the Controlling Account, mail statements of their accounts to all debtors shown upon the trial balance of the terminating date.

Dispatching these statements at this time will give opportunity for their return during the progress of the audit.

As rapidly as these statements are returned they should be checked against the trial balance; delinquents should be urged to return them until the last one possible is received.

To verify accounts payable, the proper course is to procure statements from all parties with whom your client is known to do business, and compare them with the accounts upon the books.

From the trial balance of the initial date determine the aggregate amount of personal accounts of that time, and with that amount as a basis open the Controlling Account, which is to be conducted as described under that heading in Part I.

## BILLS RECEIVABLE AND SECURITIES

The examination of Bills Receivable should now be taken up, and it may be stated that this detail demands a great deal more thoroughness than it usually receives.



The substitution of fictitious bills receivable to offset money embezzled is a favorite method of concealing a shortage temporarily; for notes are not subjected to the frequent scrutiny which open accounts receive.

In several recent instances the officers of certain financial institutions made use of this expedient to cover up the shortage, while they were industriously looting the banks under their charge, so that when the defalcations were finally exposed, they had attained astounding proportions. This scheme may be pursued with equal facility in a commercial house, although necessarily to a smaller extent.

A simple method, and the only safe one, to follow in auditing bills receivable is to communicate with the reputed drawers of the notes, in the same manner as has been indicated for the verification of open accounts receivable, and so secure direct acknowledgment that the notes are genuine. A note once verified as above may be passed on future audits until due, as reference to your records will show that it has been proved genuine.

Attention is to be given to the maturing dates of the notes, and whether they are secured. If any unsecured notes are found to be past due they should be charged back to the open accounts of the debtors.

Notes at banks for collection or under re-discount should be verified by the auditor. A certified list of notes in their possession will be furnished by banks on proper request.

Draw up a schedule of the notes, showing their essential points in detail.

Securities in the shape of stocks or bonds are also to be examined rigidly, as there are instances on record where the number of shares represented by stock certificates had been raised. A separate schedule should be drawn up for this class of securities.

From now on you should audit the individual books in the following order, and make it a point to complete at one time

every feature of the audit relating to each particular book, including verification of footings. If possible, do not allow any book to pass out of your possession while it is under inspection.

## THE CASH BOOK

### RECEIPTS SIDE

The importance of auditing the cash book thoroughly cannot be overestimated. As stated before, the chief object in falsifying books of account is to abstract cash, and the attempt to manipulate the records for that purpose is frequently made in the cash book, either by omitting to enter receipts, or by direct falsification—such as overfooting the disbursement side or underfooting the receipts side, or by the entry of fabricated disbursements.

The cash book is really a personal account between the proprietor of a business and his cashier, the cashier charging himself with the amount of cash on hand at a certain date, to which he adds from day to day the cash received into the business from all sources. In turn the cashier takes credit for all moneys paid out on behalf of the business, and holds himself accountable to the proprietor for the difference as shown by the cash book.

It will be seen readily that it is not sufficient for a customer's remittance to appear merely in his account in the ledger, but it is equally important that the cashier as custodian should have charged himself with the amount. For that reason the author suggests that all items which appear in the ledger as "cash" should be checked from there into the cash book, since that will prove that they have been treated as "cash" and must be accounted for. By thus making this detail different from routine checking, there is less likelihood of falling into error through inattention.

In an extensive business, however, it would be practically impossible to check all cash items individually, so this difficulty has been met by introducing the Controlling Account, through which the total credited to personal accounts during the month is

checked in one item. A study of the controlling account, as described in Part I of this manual, will make clear that it is quite as reliable as individual checking.

The cash items in the general ledger, however, should be checked individually into the cash book, because they are not held in check by the controlling account. Falsification in footings and the entry of fabricated disbursements are fully provided for in the directions which follow:

Verify footings for the entire period under audit.

Check the cash book balance of the initial date against cash balance in ledger.

Check cash sales from their place of record into the cash book.

Several satisfactory methods for recording cash sales may be mentioned, such as modern cash registers (the inside record of which should be under the auditor's exclusive control), or duplicate cash sales tickets, numbered consecutively, any missing numbers of which are to be accounted for to the auditor. When other methods are used, you should test their efficiency and, if deemed unsatisfactory, recommend improvements.

If there are any other cash receipts of an impersonal character, similar to cash sales but still differing in some respect so that they cannot logically be included with them, such as sale of old material, etc., they should be tested with such records of the transactions as may be obtainable.

Cash discounts, if entered upon the cash book, are not easily verifiable, but they should be scrutinized to see that they are not excessive. Occasional items at different periods of the time under audit should be compared with remittance letters to test their individual correctness, and if they are found satisfactory they may be accepted as implying the general correctness of this class of items.

Where miscellaneous credits are made through the cash book to customers, for such items as allowances, freights, etc., if



made separately they should be subjected to the same scrutiny as they would receive were they entered in the journals, where they properly belong. Should they be *included*, however, in the same item with the cash, they should be put to the most rigid test. You should procure copies from the bank of the deposits made for your client during the period under audit, and from them determine the actual cash portion of these sundry credits. In cases where currency payments are entered in this way the amount of actual cash would have to be determined by deducting the offsetting charge from the total credit. Fortunately this is a condition not frequently met with, and when encountered should be condemned.

Compare the deposits made during the last ten days preceding the terminating date with the entries in the cash book.

From the general ledger check all cash credits into the cash book, including columnar footings; and then make sure by inspection that all of this class of items have now been checked on the receipts side of the cash book.

Post monthly footings of the personal accounts column to Controlling Account.

## THE CASH BOOK

### DISBURSEMENT SIDE

Verify footings for the entire period under audit.

Check the returned bank cheques against the items on this side of cash book, noting at the same time whether they are entered as drawn in respect to name of payee and amount. Stamp the cheques "Audited."

Check the list of outstanding cheques from bank reconcilement against the items on cash book representing them, and prove them with the vouchers, where such have been returned, otherwise with the invoices. If any of these items represent purchases of securities, the same should be inspected; if charged to personal accounts as loans or advances, investigate.



There should be vouchers ready at hand in support of all currency disbursements, since no cash should have been paid out in this form without taking a receipt at first hand. With these vouchers verify all items of this character.

The foregoing should clear this side of the cash book, excepting possibly the petty expenditure voucher, pay-rolls, and notes taken up at banks, or interest on the same. These items are frequently paid without drawing individual cheques for them; in such cases the original papers must be taken as evidence.

It should be recommended, however, that specific cheques be drawn in future for all classes of disbursements. The proper way to do this in regard to petty expenditures, is to draw a cheque in favor of the disbursing official for a round sum as a beginning, and thereafter reimburse him by cheque periodically for the amount of his expenditure voucher. This will leave the original amount in his possession, while at the same time covering his expenditures by cheque.

This brings you to the cash balance, which has been proven up before.

You have now established the *fact* of the disbursements recorded upon the cash book, but it remains to determine the purposes for which they were made.

Where the charges for moneys paid out are made upon the cash book direct to the various accounts, you should require vouchers with invoices attached, in order to check all items entered against impersonal accounts, and these vouchers should be certified "Correct" by some one of competent authority. Otherwise you should examine the invoices to see that they are of a date harmonizing with the time of payment, that they are properly made out to your client and that the amounts are correct; or at least that they have been so attested by some authorized person. Charges to personal accounts should likewise be checked with vouchers which satisfactorily explain the purpose of the payments.

Pay-rolls charged up should bear the O. K. of some one in authority, as well as the signatures of the employes to whom paid. If not so attested, satisfy yourself as to their general correctness, and recommend this safeguard. If footings are not certified, they should be verified by the auditor.

Charges to Bills Payable account for notes taken up at the bank or elsewhere should be substantiated by the canceled note itself in each instance, which should be examined as to date and genuineness; instances are known where the same note has been charged up more than once.

Petty Cash disbursements should be combined in one monthly voucher, properly attested O. K. by some responsible official. If you are asked to accept the face of a petty cash book as a voucher for this class of disbursements, you should require an authorized O. K. to be placed upon the book.

Stamp all of the foregoing vouchers "Audited" when taken into account.

Review the cash book to assure yourself that you have had vouchers for all disbursements.

Having thus satisfied yourself that the money was paid out as recorded, and also that it was disbursed for proper purposes, it remains only to make comparisons with the ledgers.

From the general ledger check all items posted from this side of the cash book, including cash balance and monthly footings of columnar postings; then make sure that this has checked all charges excepting the debits to personal accounts, which are covered by the controlling account.

Post monthly footings of the personal accounts columns to Controlling Account.

Analyze the items which are entered in the columns that are charged in total to the respective accounts. This is particularly important in connection with the cash book, as it will betray improper distribution, if such have been made accidentally or otherwise.

In establishments where the Voucher System is a part of the scheme of accounting, the distribution of disbursements is made in advance upon the Voucher Register at the time when the vouchers are issued, instead of being made upon the cash book when they are paid, as heretofore described. Under this arrangement all disbursements are charged to Accounts Payable upon the cash book, as an offset to the corresponding credits previously made to the same account upon the Voucher Register.

In such a case the audit of the disbursement side of the cash book has been completed practically at the point where it is indicated that the *fact* of the disbursements has been established. The following details, however, should be added:

Check the items from the Accounts Payable column in the cash book into the corresponding column in the Voucher Register, in order to determine by the amounts remaining unchecked and, therefore, unpaid, the correctness of the balance of Accounts Payable account.

Check monthly footings of the Accounts Payable column, as well as the final cash balance, into the general ledger.

If, in conjunction with the use of the voucher system, there are any charges made in the cash book to other than Accounts Payable account, check them in the manner described heretofore for vouching items direct into the cash book.

## THE VOUCHER REGISTER

### CREDITING SIDE

These directions for auditing the Voucher Register are based upon the system, so generally in use, by which the vouchers, with papers attached, are sent out with the remittances, to be receipted and then returned. Where the more up-to-date method of issuing both an office voucher and a voucher-check is in force, most of the complications provided for in this article are obviated;



especially the matter of paid vouchers not having been returned is eliminated entirely.

Verify footings for the entire period under audit.

In following these directions you have already checked the paid items from the cash book into the Accounts Payable column in the Voucher Register. Now make a schedule of the unpaid vouchers as shown by the unchecked items, and compare the total with the balance of Accounts Payable account in the ledger.

Check the returned vouchers against the items which are shown "paid" on this side of the Voucher Register, to determine what vouchers (if any) are missing. To avoid unnecessary handling of vouchers, the examination of them and comparison with the distribution side of the Voucher Register, stipulated for below, may all be made at this time.

Check the total of Accounts Payable column to its proper account in the ledger.

Check other general ledger items (if any) into the ledger.

Post footings of the personal ledger column (if any) to Controlling Account.

## THE VOUCHER REGISTER

### DEBITING SIDE

Under the voucher system for paying accounts the Voucher Register supplants the right-hand side of the cash book, so far as relates to the distribution of charges and the entry of details.

The examination of vouchers and the mode of checking them into the debiting side of the Voucher Register is therefore identical with the method already indicated for handling them when they have been entered in the cash book.

Verify footings for the entire period under audit.

It is stated above that the examination of returned vouchers and their comparison with this side of the Voucher Register might as well be made at the time when they are being checked



against the crediting side of this book. This examination involves inspection to determine whether they are properly O. K.'d, and whether they have invoices attached or on file to substantiate the charges made from them upon this side of the Voucher Register, and it should be noted particularly whether the charges are properly distributed. Vouchers that have been issued, but remain unpaid, should be compared in the same manner with the entries in the Voucher Register.

This should clear the debiting side of this book, except such items as are covered by vouchers paid but not returned; for such items the returned bank cheque is usually deemed a satisfactory voucher, unless the nature of the distribution should seem to require corroboration.

Make a list of these missing vouchers for your report.

Stamp the vouchers and attached invoices "Audited" at the time when they are compared with the entries upon the Voucher Register.

Check the general ledger items and columnar footings into the general ledger.

Post footings of the personal ledger column to Controlling Account.

Analyze columns which are posted in total to any expense or capital account.

## THE PURCHASE BOOK

The distinctive Purchase Book is often dispensed with entirely where a Voucher Register is used, as all purchases are vouchered at first hand by that system. In other establishments, however, while the Purchase Book is used, it is limited to the entry of purchases of the commodities dealt in, and there may be still other conditions found that will further modify this arrangement; but the principle of auditing the purchases of the stock-in-trade, wherever recorded, remains the same.

Verify footings for the entire period under audit.

Check all entries of purchases with the original invoices, which should be examined in regard to details of date, both *month* and *year*; see that they are properly made out to your client; and that they are certified by the manager or an authorized employe in respect to receipt of goods, and correctness of price and extensions.

Stamp the invoices "Audited" at the time when they are compared with the entries.

Purchases made for officials or employes should be traced to their respective accounts.

If the charges for goods returned to shippers are entered upon this book, check the shipping clerk's record of same against the entries.

Check footings into the proper ledger account.

Post footings to the Controlling Account.

## THE SALES BOOK

Verify footings for the entire period under audit.

For an audit of the character described here you may accept the total-extension of individual invoices as the basis from which to take sales into account, the assumption being that they were properly checked before they were entered in the books.

Where there are numerous sales books in use, it may be found that the sales are transferred to a sales journal from which the postings are made to the ledger. In such a case it is optional whether you check the sales into the journal, or post the totals direct from the book of original entry into the Controlling Account; the last named is the more desirable method, where practicable, as thereby you will be taking original figures.

Should credits for merchandise returned be entered in this book, call for authorized credit slips, or similar vouchers, with which to check the entries.

Stamp the credit slips "Audited" when compared with the entries.

Check footings into the general ledger.

Post footings to the Controlling Account.

## THE JOURNAL

Verify footings for the entire period under audit.

In auditing the journal a cardinal rule, previously stated, is to see that no fictitious credits are allowed to stand in any account to which cash is posted on either side. As has already been stated elsewhere, nearly all falsifications are made with the ultimate object of diverting cash, therefore this single rule, if followed, will in itself accomplish a large part of the object of the audit.

This applies equally to all books of account; but it is here emphasized for the reason that the journal, with its various auxiliaries, affords the best opportunity to falsify, and in consequence this book is usually favored with those entries, if any such are made.

The larger establishments use journal vouchers from which entries are made upon the journal. By this system an individual voucher for each entry is drawn, which recites the details of the transaction and is then certified with an authorized O. K.; after which it is journalized. This facilitates greatly the auditing of the journal, as it is then necessary only to check these vouchers against the entries in order to establish their correctness; except in cases of extraordinary entries, when independent investigation should be made.

Where the journal entries are made haphazard, however, without regard to any particular system—as is often the case—the inspection of the journal becomes a much more complicated matter. To verify the entries item by item would involve an amount of labor which would make auditing entirely too expensive. For an audit such as is here described the necessity for



detailed inspection may be overcome by having some authorized official initial the individual pages of the journal as evidence that he assumes responsibility for the entries.

While accepting such a general O. K. in the main, you should still verify entries so far as possible with such data or memoranda as may be at hand, noting particularly whether entries for purchases of every kind are supported by invoices, and whether the purchases were really made for your client.

All such invoices and memoranda should be stamped "Audited" at the time when they are checked against the entries.

By thus checking a portion of the entries, those remaining unchecked will be brought more conspicuously to your notice when reviewing the book, and any unusual or exceptional items thus discovered should then be investigated.

It should be noted in this connection that, where credits to customers have been made without a definite O. K., the receipt side of the cash book should be vouched by checking the deposit slips of the period under audit, against this side of the cash book.

Analyze columnar charges made to expense or capital accounts.

Check general ledger items, and the footings of columns that are posted in totals, into the general ledger.

Post footings of the personal ledger columns into Controlling Account.

## REVIEW AND CONCLUSION OF THE AUDIT

After you have inspected all the books of original entry proceed to examine the ledgers.

Inspect the personal ledger trial balance to determine whether all the debtors' accounts have been pronounced "Correct," through the statements previously sent out, or that differences (if any) have been reconciled.

That all liabilities, as determined by the statements requested from trade creditors, appear upon the books.



That the total of the personal ledger trial balance agrees with the independent Controlling Account which you have kept throughout the audit; and that the Controlling Account (if one is kept) upon the general ledger, in turn, agrees with yours.

If some detail of the instructions heretofore given has been disregarded, as is sometimes done, it may result that there is now no positive proof of the correctness of the personal ledger trial balance. In such a case it is necessary to foot all open personal accounts upon the ledger from the point where they were last ruled off, and in that manner confirm the balances shown upon the trial balance.

It will be found, however, that where the foregoing instructions have been followed exactly throughout, and where no errors have been found in the books of original entry, nor developed through the medium of the statements sent out or received, that the personal ledger trial balance as originally taken will stand confirmed without re-footing the accounts.

For the purpose of assisting you in rating accounts receivable as "good," "doubtful," or "bad," you should review the trial balance in company with the credit man of the establishment, and be governed by his suggestions if they seem reasonable to you.

The general ledger is now to be re-footed for the entire period under audit, whether accounts are ruled up or remain open, and note is to be taken at the same time whether all items within that period bear your check mark. Following the inspection of each account, the net balance of the same is to be checked against the trial balance.

Compare your analysis sheets of the various expense and capital accounts with the totals of each of these accounts upon the ledger, and make sure at the same time that no error has been made in the distribution of charges.

From the trial balance, verified as above, draw up the Profit and Loss Statement and the Balance Sheet.

## THE PROFIT AND LOSS ACCOUNT

Properly the Profit and Loss account should be used merely to receive the transfer of the yearly balances of the various revenue accounts, to show compactly the result of the year's business. If the account is restricted to the use stated above, it follows that the items brought over have been audited in their original location in the revenue accounts, and the only precaution then necessary in respect to them is to see that they have been transferred correctly. Frequently, however, both charges and credits are made direct to the Profit and Loss account during the year, and sometimes even direct upon the ledger without journalizing. Such entries should receive especial scrutiny from the auditor, and particularly if customers' accounts have been closed into Profit and Loss for the stated reason that they are considered uncollectible. It is very important to see that any transfer of a personal account which withdraws it from the "live" section of the ledger, is properly authorized, whether it is carried into Profit and Loss, Bad Debt, Suspense, or any equivalent account. Inquiry should also be made to ascertain whether such delinquent accounts are being properly followed up by the collection department.

## THE BALANCE SHEET

The balance sheet is a condensation of the final trial balance, and should be in such form as to show in the most compact manner, and with due regard to proper relationship, the totals of each of the several classes of Assets and Liabilities of the business.

Where necessary, the balance sheet may be utilized for correcting any vital omission from the books of account; as, for instance, if it is found that no reserve has been provided for bad debts, depreciation, etc. This should be rectified upon the balance sheet by deducting a proper percentage from each class of

the assets liable to depreciation, such reductions to be offset by a corresponding charge to Profit and Loss.

In a similar manner, when such items as unearned premiums prepaid on insurance, interest accrued on loans, rent paid in advance, etc., are of a sufficient amount to warrant it, credit may be given on the balance sheet by inserting a Special Inventory account, and making a corresponding credit to Profit and Loss.

In order to be perfectly exact, the stationery, fuel, etc., purchased but unused at the terminating date may likewise be taken into account in the same manner, though the position is usually taken that, if they are not of sufficient value to be regularly inventoried, they need not be considered.

Wages accrued, and interest on notes given, should appear upon the books of account; but if not entered, they must be provided for upon the balance sheet as "Accrued Accounts."

A great deal has been written in respect to the relative positions which the assets and liabilities should occupy upon the balance sheet, but the preferred arrangement when the double-page form is used, is to locate the assets upon the left-hand side, with the liabilities opposite. In harmony with this, when the single-page form is employed, the assets should be placed before the liabilities.

The various items of assets should be arranged in the order of their availability in the event of liquidation, and the liabilities should be arranged on a similar basis, in the sequence of their respective preference in law.

Review the balance sheet to determine how far your investigation has established the existence of the assets scheduled, and if any items still lack verification, they should now be investigated and confirmed.

Satisfy yourself that values have not been inflated, and that proper deductions have been made from the various items to meet discounts, probable losses from bad debts, depreciation, etc.

The inventory, particularly, should bear the O. K. of some



one in authority, as certification that the goods scheduled had actually been purchased but remained unsold at the date of the inventory, and that they were listed at prices not exceeding the original cost, or present market value, whichever is the lowest. In addition to this you should satisfy yourself of the correctness of the extensions and footings.

Bills Receivable, as well as other securities, when not otherwise verified, must be examined carefully to establish their genuineness, and they should be checked against the item which they represent upon the balance sheet.

It is urged, however, that the directions given heretofore for verifying bills receivable, should be followed.

If customers' notes have been discounted, but have not matured, there is a contingent liability involved for which it is necessary that a reserve be provided.

These instructions have advised the procuring of statements from trade creditors for comparison with the books of your client. Of course you should assure yourself that they agree, and also make a careful survey to determine that all miscellaneous liabilities, such as wages, rent, etc., are provided for upon the balance sheet.

## THE AUDITOR'S REPORT

From the information gathered and noted throughout the audit make up your report, reciting conditions as you found them. Call especial attention to any irregularities that you may have discovered, and recommend such changes or improvements in the method of accounting as you may deem advisable. Ordinarily the report should contain the following schedules and statistical statements; and, under special conditions, still others may be required to meet the particular object for which the audit was undertaken.



Balance Sheet.

Trading Statement, or Profit and Loss Account, and comparisons with previous years.

Summaries of the analyses of the various Capital Accounts and Expense Accounts, and comparison with previous years.

List of Bills Receivable.

List of other securities (if any).

List of Bills Payable.

List of Delinquent Accounts.

Recapitulation of the cash balance.

List of outstanding cheques at time of reconciliation with bank pass-book.

List of unpaid vouchers.

List of missing "paid" vouchers (if any).

List of missing returned bank cheques (if any).

Trial balance of the initial date.

Preliminary trial balance of the terminating date.

Final trial balance of the terminating date.

## THE AUDITOR'S CERTIFICATE

The Balance Sheet, when rendered separately, should bear your certificate at the foot as follows:

I hereby certify that I have carefully examined the books of account of the Smith-Brown Co., of Chicago, Ill., and that the above balance sheet is a true, correct, and full statement of the condition of their business as on November 30, 1905, as disclosed by said books of account.

(Signed) \_\_\_\_\_

Accountant and Auditor.

Dated at Chicago, Ill., December 31, 1905.

### A SPECIMEN REPORT

The following report was rendered upon completion of an audit where the books were found in chaotic condition. It has been selected as a specimen because it abounds in criticism and suggestions for improvement, necessitated by the condition of the accounts.

The student can readily determine what features to omit when reporting upon books which have been correctly kept.

(In practice the report is usually typewritten.)

November 23, 1906.

# THE COAL MINING AND SHIPPING COMPANY

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## ACCOUNTANT'S AUDIT REPORT

on the Books of Account for the eighteen months ended  
September 30, 1906.

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GEORGE B. RENN,  
Public Accountant and Auditor,  
Chicago.





1341 Dakin Street,  
Chicago, Ill.

November 23, 1906.

James Smith, Esq.,  
President,  
The Coal Mining & Shipping Co.,  
Chicago.

Dear Sir:

In compliance with your instructions we have made a thorough examination of the Books of Account and records pertaining to same, of The Coal Mining & Shipping Co., for the eighteen months from April 1st, 1905, to September 30th, 1906, and herewith submit our report thereon.

The Accounts presented are divided into two parts, covering the business of twelve months and six months respectively, as follows:—

PART 1. April 1st, 1905, to March 31st, 1906.

PART 2. April 1st, 1906, to September 30th, 1906.

#### INDEX—PART ONE.

We have prepared the following Accounts covering the transactions of the year ended March 31st, 1906.

- Account No. 1. Balance Sheet as on March 31st, 1906.
- Account No. 2. General Profit & Loss Account for the year.
- Account No. 3. Dock General Profit & Loss Account for the year.
- Account No. 4. Dock No. 1 Profit & Loss Account for the year.
- Account No. 5. Dock No. 2 Profit & Loss Account for the year.
- Account No. 6. Mine Profit & Loss Account for the year.

## INDEX—PART TWO.

The following Accounts have been prepared for the six months ended September 30th, 1906:—

- Account No. 7. Summarized Trial Balance as on Sept. 30th, 1906.  
 Account No. 8. List of Accounts Receivable as on Sept. 30th, 1906.  
 Account No. 9. List of Accounts Payable as on Sept. 30th, 1906.

## ANALYSES—PART ONE.

## ACCOUNT NO. 1. BALANCE SHEET.

In the following paragraphs we give analyses of various accounts shown on Balance Sheet:—

TREASURY STOCK \$49,100.00.

BALANCE, April 1st, 1905.....\$134500.00

LESS: STOCK transferred as below:—

|                       |            |                 |
|-----------------------|------------|-----------------|
| Name, 426 shares..... | \$42600.00 |                 |
| Name, 232 shares..... | 23200.00   |                 |
| Name, 116 shares..... | 11600.00   |                 |
| Name, 80 shares.....  | 8000.00    |                 |
|                       |            | <u>85400.00</u> |

BALANCE, March 31st, 1906.....\$ 49100.00

REAL ESTATE, PLANT, IMPROVEMENTS, ETC.,  
 totalling \$95,534.46.

MINE NO. 1 REAL ESTATE AND PLANT. \$67,597.01.

BALANCE, April 1st, 1905.....\$ 44860.90

REAL ESTATE:—

|                              |            |                 |
|------------------------------|------------|-----------------|
| 123 Acres from ——— .....     | \$12000.00 |                 |
| 78 3/10 Acres from ——— ..... | 5872.50    |                 |
| 1 Acre from ——— .....        | 50.00      |                 |
|                              |            | <u>17922.50</u> |

COAL RIGHTS:—

|                          |            |                |
|--------------------------|------------|----------------|
| 20¾ Acres from ——— ..... | \$ 1556.25 |                |
| 40 Acres from ——— .....  | 3000.00    |                |
|                          |            | <u>4556.25</u> |

MACHINERY, ETC.:—

|                                    |           |
|------------------------------------|-----------|
| 1 13x12 Ideal Engine, 2nd hand.... | \$ 550.00 |
| 1 Austin Steam Separator.....      | 50.00     |
| 1 8-ton Head Pan Scale.....        | 80.00     |
| 1 Steam Engine, 2nd hand .....     | 55.00     |

|                       |           |             |
|-----------------------|-----------|-------------|
| Carried forward ..... | \$ 735.00 | \$ 67339.65 |
|-----------------------|-----------|-------------|

|  |           |             |
|--|-----------|-------------|
| Brought forward .....                      | \$ 735.00 | \$ 67339.65 |
| MACHINERY, ETC. (continued):—              |           |             |
| Leather Belting .....                      | 26.35     |             |
| Material New Cars.....                     | 22.31     |             |
| Bar Iron (use not specified).....          | 99.75     |             |
|  |           | 883.41      |
| LABOR (Distribution of Mine Pay-Roll)..... |           | 5173.59     |
| MULES purchased (3).....                   |           | 300.00      |
| SUNDRIES:—                                 |           |             |
| Machinery Repairs and Supplies....         | \$ 356.12 |             |
| Services Mining Engineer.....              | 54.50     |             |
| Freight (adjusting undercharge on          |           |             |
| Machinery and Supplies).....               | 1.35      |             |
|  |           | 411.97      |
| TOTAL DEBITS .....                         |           | \$ 74108.62 |

## CREDITS.

## SALES:—

|                                    |          |             |
|------------------------------------|----------|-------------|
| Old Hoisting Engine .....          | \$550.00 |             |
| Old Scale .....                    | 60.00    |             |
| Old Elevator .....                 | 50.00    |             |
| Revolving Screen .....             | 20.00    |             |
| Scrap Iron, etc.....               | 296.42   |             |
| 3 Mules sold .....                 | 235.00   |             |
|                                    |          | \$ 1211.42  |
| ROYALTY, charged to Coal Account.. | 3772.19  |             |
| REFUND on Purchase from ——— .....  | 1500.00  |             |
| MINE ASSETS COLLECTED.....         | 28.00    |             |
|                                    |          | 6511.61     |
| BALANCE, March 31st, 1906.....     |          | \$ 67597.01 |

You will note that Machinery, Tools, Machinery Repairs and Supplies are included in the charges to this account and also in the Improvement Account (details of which are given below) showing a lack of uniformity in the distribution of charges. An examination of the other accounts would seem to indicate that the distribution of accounts was left to the opinion of whoever approved the charges, without reference to any definite plan. This practice minimizes the value of the distribution, and the remedy therefor is made the subject of another part of this report, "Distribution of Accounts."

The credit for Royalty, which is made each month, we presume is considered as the Depreciation of the Mine, but no Depreciation has been written off Improvement and other asset accounts. The subject of Depreciation is considered in a later paragraph.

## MINE NO. 1 IMPROVEMENTS. \$25,733.14.

## MACHINERY, EQUIPMENT, ETC.:—

|   |             |
|---|-------------|
| Goodman Electrical Machinery.   | \$ 3000.00  |
| 1 Pr. 18x36 Hoisting Engines (with packing) .....   | 1930.00     |
| 51 Coal Cars .....  | 1375.00     |
| 1 Weigh Pan and 1 Shaker Screen .....   | 1075.00     |
| 1 Electric Generator .....  | 900.00      |
| 1 20' Fan and 12x24 Engine.....   | 685.00      |
| 1 Pr. Self-dumping Cages.....   | 425.00      |
| 59 Sets 13" S. O. Wheels with axles .....   | 481.00      |
| 283 Cast Iron Bumpers.....  | 141.50      |
| 25 13" Wheels for Cars.....   | 37.50       |
| Bar Iron for Cars.....  | 103.46      |
| Double Dynamo Belt.....   | 49.82       |
| Pulleys, Belting, Shafting and Hangers .....  | 87.52       |
| Pipe and Boiler Covers and Asbestos Cement .....  | 65.77       |
| 2 Lubricator Pumps at \$42.00.....  | 84.00       |
| 1 Power Post Drill with C. S. Pulley and Hangers.....   | 39.00       |
| 1 Loco. Arc Headlight with Carbons .....  | 37.00       |
| 3 Mandrils for Saw, Emery Wheel and Grinders .....  | 23.00       |
| 2 Radiators .....   | 25.00       |
| 1 Reel for Copper Wire.....   | 10.00       |
| 1 ¼ ton Chair Hoist.....  | 9.10        |
| 1 Buffalo Blower .....  | 9.10        |
| 1 Circular Saw \$6.00, 1 Emery Wheel \$2.03 .....   | 8.03        |
| 1 Steel Barrow .....  | 5.70        |
| 3 No. 1 Trolley Supports \$3.60, 1 Switch \$4.05 .....  | 7.65        |
| 1 Arbor for No. 2 Morse Socket..  | 1.00        |
|   | <hr/>       |
|   | \$ 10615.15 |
| Labor and Material used in Construction of New Buildings and in sundry Improvements and Maintenance ..... | 9571.35     |
| Machinery Supplies and Repairs.....   | 2333.23     |
| Steel Rails, Joints and Spikes.....   | 2444.56     |
| R. R. Ties .....  | 504.02      |
| Freight and Express .....   | 264.83      |

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BALANCE, March 31st, 1906.....\$ 25733.14

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Included in the foregoing item for Labor and Material are several charges for Maintenance of Plant, which should have been charged against cost of operation.

In the foregoing account there is a charge for two Lubricator Pumps at \$42.00 each. Only one pump was purchased, but two bills were rendered for same and both bills were passed and paid. One bill was rendered by the maker of the pump in Chicago, and some weeks later another bill was passed in favor of the Sales Agent in St. Louis, who had also rendered a bill. An effort is now being made to recover the amount paid to the St. Louis Agent.

Included in the item of Machinery, Supplies and Repairs, is a duplicate charge for 1 Breeching purchased from ———, Invoice No. 396, amount \$55.00. This same breeching was again charged on Invoice No. 459 and paid for. We are informed that Mr. ——— has acknowledged the error and remitted the amount.

Both of the above errors are the result of carelessness on the part of your Mine Clerk, or lack of a proper Receiving Book being kept there. A description of a good Receiving Book is given in the latter part of this Report.

There are also included in the item "Labor and Material" several bills for timbers or lumber purchased from ———, and during the examination of this account we found that Invoice No. 284, amounting to \$126.68 had been paid for twice. Steps are now being taken to recover this amount. This error was made in your Chicago Office, and caused by charging the amount of the first cheque to Improvement Account through the Cash Book direct, and later charging the invoice to Improvement Account and crediting the account of the shipper through the Journal. A correct Voucher System (such as is referred to later) would render such errors impossible.

#### SAW MILL \$1745.10.

|  |           |
|--|-----------|
| Jan. 15, 1906. Purchase price of Mill..... | \$1600.00 |
| 3 Wagons purchased.....                    | 145.10    |

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BALANCE, March 31st, 1906....\$1745.10

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## DOCK NO. 1 PERSONAL PROPERTY \$322.18.

|   |                  |
|---|------------------|
| BALANCE, April 1st, 1905.....             | \$ 113.50        |
| Purchases: 6 Wheelbarrows .....           | \$60.00          |
| 4 doz. Scoops .....                       | 49.98            |
| 1½ doz. Scoops.....                       | 23.25            |
| Coal Chutes \$22.52, Baskets \$14.00..... | 36.52            |
| Window Shades, office.....                | 10.45            |
| Gasoline Lamps .....                      | 12.50            |
| Misc. Tools and Supplies.....             | 15.98            |
|   | <u>208.68</u>    |
| BALANCE, March 31st, 1906.....            | <u>\$ 322.18</u> |

The balance of the above account is carried as an Asset on your Books, but it will be readily seen that most of the additions to same during the year were not of a permanent nature.

## DOCK NO. 2 PERSONAL PROPERTY \$137.03.

|  |                 |
|--|-----------------|
| BALANCE, April 1st, 1905.....                | \$142.23        |
| 4 1-ton Dump Coal Buckets.....               | 254.80          |
|  | <u>\$397.03</u> |
| LESS: Repairs, etc., paid for by ——— Ry. Co. | 260.00          |
| BALANCE, March 31st, 1906.....               | <u>\$137.03</u> |

It is evident that the above balance does not represent the inventory value of Dock Property. The cost of making the various repairs, which has been partly refunded by the receipt of the \$260.00 above credited, was originally charged to the Expense Accounts and the refund should have been carried to the same accounts.

## STOCKS as per Inventories. \$98,726.22.

The amounts representing the inventory values of various stocks on hand are as shown on your Books of Account and could not be verified by us.

## FURNITURE AND FIXTURES \$658.30.

|  |                 |
|--|-----------------|
| BALANCE, April 1st, 1905.....          | \$444.50        |
| Filing Cabinets, etc.....              | 107.80          |
| 1 No. 7 Remington Typewriter.....      | 60.00           |
| 1 No. 1 Pica Underwood Typewriter..... | 46.00           |
|  | <u>46.00</u>    |
| BALANCE, March 31st, 1906.....         | <u>\$658.30</u> |

## BILLS RECEIVABLE \$156.07.

This item represents a note which has since been paid.

## SPECIAL ACCOUNTS \$14,655.43.

The above represents overcharges, and adjustments, which have been charged to various shippers, and are now in process of settlement.

## CAPITAL STOCK \$250,000.00.

The entries made for the increase of the Capital Stock from \$50,000.00 to the above amount were made prior to April 1st, 1905, but we examined same and found them correct.

## SURPLUS ACCOUNT \$17,326.24.

This account as shown on Balance Sheet represents the Surplus for the season 1905-1906. There was, however, a credit balance of \$27,454.39 at the close of the business of the Old Coal Co., March 31, 1905, prior to the increase of the Capital Stock. This Surplus was distributed pro rata among the holders of the \$50,000.00 Capital Stock, as follows:—

|                       |                   |
|-----------------------|-------------------|
| Name, 275 shares..... | \$15099.92        |
| Name, 150 shares..... | 8236.32           |
| Name, 75 shares.....  | 4118.15           |
| <u>500 shares</u>     | <u>\$27454.39</u> |

## ACCOUNT NO. 2. GENERAL PROFIT AND LOSS ACCOUNT.

The charges entered under the various headings require no explanation, the amounts entered opposite each of the items being as accurate as could be obtained from the accounts as kept in your Books.

ACCOUNT NO. 3. DOCK GENERAL PROFIT AND LOSS  
ACCOUNT.

We give below the details of the Superior Coal Account, and Steamer Loss and Gain Account. The amounts entered as the Loss and Gain at the Omaha and Denver Agencies, respectively, are as shown in the accounts in the Chicago Office, but as the General Accounts of these Agencies are not kept in Chicago, we have not

verified these amounts. We understand these Agencies are under the personal supervision of Mr. ———, Secretary. The Losses and Gains of Docks No. 1 and 2 are given in Accounts 4 and 5 respectively.

#### SUPERIOR COAL ACCOUNT, GAIN \$8322.68.

##### CHARGES:—

|   |            |
|---|------------|
| Coal Purchases .....                      | \$90345.11 |
| Cargo Insurance .....                     | 149.44     |
| Interest on Notes given for purchases.... | 29.03      |

##### CREDIT:—

|                      |                   |
|----------------------|-------------------|
| Coal Sales .....     | \$98846.26        |
| PROFIT as above..... | 8322.68           |
|                      | <u>\$98846.26</u> |
|                      | <u>\$98846.26</u> |

#### STEAMER FUEL ACCOUNT, GAIN \$3661.08.

|                                      |                   |
|--------------------------------------|-------------------|
| SALES to Steamers .....              | \$20095.45        |
| COST OF FUEL as per Fuel bills.....  | 16027.59          |
|                                      | <u>\$ 4067.86</u> |
| LESS: 10 per cent paid to Agent..... | 406.78            |
| NET GAIN as above.....               | <u>\$ 3661.08</u> |

#### ACCOUNT NO. 4. DOCK NO. 1 PROFIT AND LOSS.

In considering the cause for this Account showing a large loss, while the Dock No. 2 Account shows a gain, it will be noted that the Selling and General Expenses and the Taxes and Insurance amount to about \$6500.00 more than at Dock No. 2.

|  | At<br>Dock No. 1.  | At<br>Dock No. 2.  |
|--|--------------------|--------------------|
| The Coal on hand April 1st, 1905,<br>and Coal purchased was approxi-<br>mately .....             | \$158400.00        | \$156700.00        |
| The sales and coal on hand March 31,<br>1906, was approximately .....                            | <u>217750.00</u>   | <u>224900.00</u>   |
| Leaving Gross Profit against which to<br>charge Cost of Handling and all<br>other expenses ..... | <u>\$ 59350.00</u> | <u>\$ 68200.00</u> |

These figures would indicate that either the coal cost a higher price or was sold at closer figures at Dock No. 1 than at Dock No. 2.



Analyses of certain accounts shown in Account No. 4 are given herewith.

# BITUMINOUS AND ANTHRACITE, DISCHARGING AND LOADING ACCOUNTS.

| Distribution   | Discharging<br>Bit. | Discharging<br>Anth. | Loading<br>Bit.  | Loading<br>Anth. | Totals            |
|----------------|---------------------|----------------------|------------------|------------------|-------------------|
| Labor .....    | \$6158.11           | \$2419.69            | \$8347.60        | \$7652.28        | \$24577.68        |
| Fuel .....     | 361.29              | 145.41               | 44.16            | 181.61           | 732.47            |
| Light .....    | 79.58               | 14.36                | .....            | 67.07            | 161.01            |
| Repairs .....  | 64.52               | 47.05                | 57.17            | 21.06            | 189.80            |
| Supplies ..... | 28.34               | 18.66                | 13.48            | 14.16            | 74.64             |
|                | <u>\$6691.84</u>    | <u>\$2645.17</u>     | <u>\$8462.41</u> | <u>\$7936.18</u> | <u>\$25735.60</u> |

If the charges against Discharging and Loading Anthracite (as shown by the above statement) are correct, it appears that the coal for the A. & B. Company was handled on too close a margin to insure any profit, as the Anthracite Commission Accounts show receipts of only \$10735.01.

## GENERAL AND DOCK EXPENSES \$6596.47.

### GENERAL EXPENSES:—

|                                       |            |                   |
|---------------------------------------|------------|-------------------|
| Rent of Dock.....                     | \$ 1933.32 |                   |
| Rent of Office.....                   | 387.50     |                   |
| Expenses with Trade.....              | 132.62     |                   |
| Switching .....                       | 2.00       |                   |
| Light \$20.87, Water Tax \$15.00..... | 35.87      |                   |
| Postage Stamps .....                  | 40.00      |                   |
| Advertising .....                     | 26.00      |                   |
| Donations .....                       | 10.00      |                   |
| Sundry Supplies and Expense.....      | 102.24     |                   |
|                                       |            | <u>\$ 2669.55</u> |

### DOCK EXPENSE:—

|                                 |            |                   |
|---------------------------------|------------|-------------------|
| Labor .....                     | \$ 2840.80 |                   |
| Machinery Repairs .....         | 594.28     |                   |
| Supplies and Tools.....         | 245.88     |                   |
| Cribbing Bins .....             | 138.35     |                   |
| Light .....                     | 52.50      |                   |
| Fuel \$25.22, Water \$4.78..... | 30.00      |                   |
| Donations .....                 | 10.00      |                   |
| Stationery and Sundries.....    | 15.11      |                   |
|                                 |            | <u>3926.92</u>    |
|                                 |            | <u>\$ 6596.47</u> |

## TAXES AND INSURANCE \$1785.70.

|                               |                   |
|-------------------------------|-------------------|
| Real Estate Taxes, 1904.....  | \$ 92.67          |
| Real Estate Taxes, 1905.....  | 615.50            |
| Personal Property Taxes ..... | 231.85            |
| Fire Insurance .....          | 304.03            |
| Employer's Liability .....    | 520.65            |
| Surety Bond Premium.....      | 21.00             |
|                               | <u>\$ 1785.70</u> |

## FOREIGN COAL CR. \$167.35.

|   |                   |                   |
|---|-------------------|-------------------|
| BALANCE, Inventory April 1st,<br>1905 ..... | \$ 161.40         |                   |
| Coal Purchases .....                        | 27429.04          |                   |
| Commissions .....                           | 477.93            |                   |
| Sales .....                                 |                   | \$28235.72        |
| BALANCE, Profit as above.....               | 167.35            |                   |
|   | <u>\$28235.72</u> | <u>\$28235.72</u> |

## ACCOUNT NO. 5. DOCK NO. 2 PROFIT AND LOSS.

Details of various charges and credits are given in the following paragraphs:—

## BITUMINOUS AND ANTHRACITE, DISCHARGING AND LOADING ACCOUNTS.

| Distribution                    | Discharging<br>Bit. | Discharging<br>Anth. | Loading<br>Bit.  | Loading<br>Anth. | Totals            |
|---------------------------------|---------------------|----------------------|------------------|------------------|-------------------|
| Labor .....                     | \$11506.27          | \$1689.19            | \$6156.94        | \$3001.90        | \$22354.30        |
| Fuel .....                      | 457.03              | 120.00               | 540.33           | .....            | 1117.36           |
| Misc. Repairs...                | 46.22               | 42.37                | 317.09           | 9.90             | 415.58            |
| Supplies .....                  | 44.30               | 6.60                 | 105.61           | .64              | 157.15            |
| Sundries .....                  | 464.94              | .....                | .....            | .....            | 464.94            |
| Repairing Dam-<br>aged Boat ... | 90.29               | .....                | .....            | .....            | 90.29             |
| Cribbing .....                  | .....               | 179.78               | .....            | .....            | 179.78            |
|                                 | <u>\$12609.05</u>   | <u>\$2037.94</u>     | <u>\$7119.97</u> | <u>\$3012.44</u> | <u>\$24779.40</u> |

The Discharging Bituminous Account was charged with Repairs amounting to \$342.21, but the net charge was reduced to \$46.22 on account of certain repairs being charged to the —— Ry. Co. We do not know the reason for crediting all of the amount so charged to this account, as it would seem probable that some of these repairs were originally charged against other accounts.

## GENERAL AND DOCK EXPENSE \$5553.66.

## GENERAL EXPENSE:—

|                             |           |                  |
|-----------------------------|-----------|------------------|
| Rent of Dock.....           | \$2500.00 |                  |
| Rent of Office.....         | 135.00    |                  |
| Sundry Office Expenses..... | 70.83     |                  |
| Sundry Repairs .....        | 58.38     |                  |
| Freight .....               | 29.55     |                  |
| Donations .....             | 13.00     |                  |
|                             |           | <u>\$2806.76</u> |

## DOCK EXPENSE:—

|                                 |           |                         |
|---------------------------------|-----------|-------------------------|
| Labor .....                     | \$2612.49 |                         |
| 9 Tram Cars .....               | 256.50    |                         |
| Freight on Machinery, etc.....  | 108.88    |                         |
| Repairs to Machinery.....       | 23.03     |                         |
| Repairs to Dock.....            | 9.75      |                         |
| Supplies .....                  | 16.61     |                         |
|                                 |           | <u>\$3027.26</u>        |
| Less: Sundry Repairs charged to |           |                         |
| Ry. Co. ....                    | 280.36    |                         |
|                                 |           | <u>2746.90</u>          |
| TOTAL as above .....            |           | <u><u>\$5553.66</u></u> |

## TAXES AND INSURANCE \$730.53.

|                              |                         |
|------------------------------|-------------------------|
| Real Estate Taxes, 1905..... | \$ 140.00               |
| Employer's Liability .....   | 569.53                  |
| Surety Bond Premium.....     | 21.00                   |
| TOTAL .....                  | <u><u>\$ 730.53</u></u> |

Included in the charge as above, for Liability Insurance, is an amount of \$147.70 chargeable against the season of 1904-1905, which should have been charged to the Old Coal Co. Profit and Loss Account.

## PLANT ACCOUNT \$275.00.

|                               |           |                         |
|-------------------------------|-----------|-------------------------|
| BALANCE, April 1st, 1905..... | \$4225.00 |                         |
| (Book value of Dock.)         |           |                         |
| Sold to —.....                |           | \$4500.00               |
| Profit on Sale.....           | 275.00    |                         |
|                               |           | <u>\$4500.00</u>        |
|                               |           | <u><u>\$4500.00</u></u> |

## DOCK OVERAGE \$110.29.

This being a profit of the season 1904-1905, this amount should have been credited to the Old Coal Co. Profit and Loss Account.

## ACCOUNT NO. 6. MINE NO. 1 PROFIT AND LOSS.

Details are given for the following accounts:—

## MAINTENANCE \$2943.30.

## Labor and Material:—

|   |                  |
|---|------------------|
| Timbering and Lumber.....   | \$1563.01        |
| Re-timbering Escapement Shaft and new Ladders....                         | 199.47           |
| Re-timbering Hoisting Shaft.....  | 228.93           |
| Machinery Supplies and Repairs.....                                       | 677.34           |
| Bricklaying, building Engine Bed in Shop and Stop-<br>pings in Mine ..... | 35.20            |
| Brick for Stoppings .....   | 27.50            |
| Re-plastering Fire Walls .....  | 24.35            |
| Painting .....  | 82.91            |
| Roofing Barn .....  | 32.00            |
| New Drain Pipe from Scale Pit.....  | 18.50            |
| Repairing Roof .....  | 7.12             |
| Repairing and Testing Scales.....   | 46.97            |
|   | <u>\$2943.30</u> |

Items such as building new engine bed and new drain pipe from Scale Pit should have been charged to Improvement Account.

## TAXES AND INSURANCE \$1265.42.

|                               |                  |
|-------------------------------|------------------|
| Real Estate Taxes .....       | \$ 172.07        |
| Personal Property Taxes ..... | 57.08            |
| Employer's Liability .....    | 644.43           |
| Fire Insurance .....          | 291.84           |
| Steam Boiler Insurance .....  | 100.00           |
|                               | <u>\$1265.42</u> |

To prepare absolutely correct Profit and Loss Accounts it would be necessary to consider unexpired insurance, etc., which has not been done.

## SPECIAL CHARGES \$625.28.

Included in the item of Legal Expense is an amount of \$100.00 paid to ———, Attorney, for securing option on property. A similar payment of the same amount was charged to the Plant Account, as a part of the cost of the property.



## MACHINERY AND IMPROVEMENTS \$229.22.

|                               |                 |
|-------------------------------|-----------------|
| Steel Rails, etc. ....        | \$138.48        |
| 1 No. 5 O. Sc. Plate .....    | 25.00           |
| 1 No. 2 Oil Filter .....      | 15.00           |
| 1 No. 1 Forge .....           | 14.40           |
| 1-8 ton Lifting Jack .....    | 8.00            |
| 1 Drill Press, 2nd hand ..... | 8.00            |
| 1 Wooden Pump .....           | 5.34            |
| 1 Office Desk .....           | 15.00           |
|                               | <u>\$229.22</u> |

The above should not have been charged against the year's earnings.

## ANALYSES—PART II.

## ACCOUNT NO. 7. SUMMARIZED TRIAL BALANCE.

This account shows the balances of the various Asset and Liability Accounts as at Sept. 30th, 1906, and analyses of certain accounts are given in the succeeding paragraphs.

## TREASURY STOCK \$49,100.00.

The balance of this account is the same as shown in Account No. 1.

REAL ESTATE, PLANT AND IMPROVEMENTS, totalling \$103,134.65.

## MINE NO. 1 PLANT. \$71,528.38.

|  |                   |                   |
|--|-------------------|-------------------|
| BALANCE, March 31st, 1906.....                 | \$67597.01        |                   |
| Coal Rights, 82 Acres.....                     | 6150.00           |                   |
| 3 No. 1 Drills, purchased Oct. 20th, 1904..... | 21.00             |                   |
| Labor and brick for fire wall.....             | 206.45            |                   |
| 1 Team Horses with harness.....                | 335.00            |                   |
| 1 Mule .....                                   | 135.00            |                   |
|  | <u>\$74444.46</u> |                   |
| Less: Sales:—                                  |                   |                   |
| Scrap .....                                    | \$131.34          |                   |
| Machinery .....                                | 55.20             |                   |
| 1 team Horses.....                             | 27.50             |                   |
|  | <u>\$ 214.04</u>  |                   |
| Royalty charged to Coal Account.....           | 2592.04           |                   |
| 1 Mule killed .....                            | 110.00            | 2916.08           |
|  | <u>2916.08</u>    |                   |
| BALANCE .....                                  |                   | <u>\$71528.38</u> |

## MINE NO. 1. IMPROVEMENTS \$28,879.63.

|   |                   |
|---|-------------------|
| BALANCE, March 31st, 1906.....  | \$25733.14        |
| 25 Coal Cars .....  | 625.00            |
| 25 Sets 13" S. O. Wheels with axles.....                              | 225.00            |
| Iron, Lumber, etc., for new cars.....                                 | 231.00            |
| 1 Armature for Elec. Locomotive.....                                  | 312.00            |
| 1 Rail Bender .....   | 16.65             |
| Steel Rails, etc.....   | 867.63            |
| Lumber, etc., for New Buildings and Extensions.                       | 137.11            |
| Painting Office Addition and New Engine Room                          | 52.10             |
| Plastering Engine Room.....   | 31.50             |
| Lumber for New Switches.....  | 10.50             |
| Labor and Supplies used for New Improvements<br>and for Repairs ..... | 635.34            |
| Freight .....   | 2.66              |
| BALANCE .....   | <u>\$28879.63</u> |

## SAW MILL \$1805.46.

|  |                   |
|--|-------------------|
| BALANCE, March 31st, 1906.....                                       | \$ 1745.10        |
| 1 No. 46 B. Sharpener with emery wheel and bolt..                    | 35.00             |
| Freight on above.....  | 2.08              |
| Freight on Machinery charged to this account in<br>March, 1906 ..... | 23.28             |
| BALANCE .....  | <u>\$ 1805.46</u> |

## DOCK NO. 1 PERSONAL PROPERTY \$550.20.

|   |                  |
|---|------------------|
| BALANCE, March 31st, 1906.....                    | \$ 322.18        |
| 1 Single Wagon .....                              | 50.50            |
| 3 Coal Screens .....                              | 28.50            |
| 1 Screw Plate .....                               | 17.85            |
| 1 Anvil \$10.54, 1 Vise \$7.50.....               | 18.04            |
| 7 doz. Scoops, \$91.21, 2 Coal Chutes \$8.40..... | 99.61            |
| Misc. Tools, etc.....                             | 13.52            |
| BALANCE .....                                     | <u>\$ 550.20</u> |

## DOCK NO. 2 PERSONAL PROPERTY \$296.48.

|                                |                  |
|--------------------------------|------------------|
| BALANCE, March 31st, 1906..... | \$ 137.03        |
| 6 Wheelbarrows .....           | 60.00            |
| 7 doz. Scoops .....            | 91.43            |
| Freight on above.....          | 8.02             |
| BALANCE .....                  | <u>\$ 296.48</u> |

The Scoops and Tools charged to the Personal Property Accounts, not being permanent assets, should have been charged against operating costs.

77th ST. YARD PERSONAL PROPERTY \$74.50.

|                                 |                 |
|---------------------------------|-----------------|
| Purchases: 4 Wheelbarrows ..... | \$ 37.00        |
| 2 Autographic Registers .....   | 37.50           |
| BALANCE .....                   | <u>\$ 74.50</u> |

FURNITURE AND FIXTURES \$688.30.

|                                |                 |
|--------------------------------|-----------------|
| BALANCE, March 31st, 1906..... | \$658.30        |
| 1 Smyrna Rug.....              | 30.00           |
| BALANCE .....                  | <u>\$688.30</u> |

BILLS PAYABLE \$190,382.67.

The above consists of the following items:—

NOTES DISCOUNTED AT BANKS:—

|                         |                    |
|-------------------------|--------------------|
| Tenth National .....    | \$35000.00         |
| Eleventh National ..... | 25000.00           |
|                         | <u>\$ 60000.00</u> |

NOTES GIVEN FOR DOCK COAL PURCHASES.. 112890.18

OTHER NOTES:—

|                            |                    |
|----------------------------|--------------------|
| Name, due 6/12/1907.*..... | \$ 3500.00         |
| Name, due 3/25/1907.....   | 1000.00            |
| Name, due 3/25/1908.....   | 1000.00            |
| Name, due 5/ 1/1907.....   | 1731.25            |
| Name, due 5/ 1/1908.....   | 1731.25            |
| Name, due 5/ 1/1907.....   | 478.12             |
| Name, due on demand.....   | 8051.87            |
|                            | <u>17492.49</u>    |
|                            | <u>\$190382.67</u> |

OLD COAL CO. PROFIT AND LOSS \$1675.88.

We understand this account should be charged and credited with all items affecting the business of the Old Coal Co., and the final balance of same will be charged or credited to the Stockholders of the Old Coal Co. as at March 31st, 1905. However, several losses and gains on the business prior to the above date were not carried to this account, as is shown on the Profit and Loss Accounts herewith submitted.

A summary of the charges and credits resulting in the foregoing credit balance is given below:—

### CHARGES.

|  |           |
|--|-----------|
| Reduction and cancellation of R. R. Claims.....  | \$ 126.61 |
| Claim collected and credited in error to Special Account. Credit given to Railroad Account and charged here, as Special Account is closed..... | 276.00    |
| Sundry Allowances to Customers.....  | 330.80    |

### BAD DEBTS:—

|                                      |         |           |
|--------------------------------------|---------|-----------|
| Name .....                           | \$40.30 |           |
| Name .....                           | 49.50   |           |
| Name .....                           | 49.66   |           |
|                                      |         | <hr/>     |
|                                      |         | 139.46    |
| Claim of ——— M. Co.....              |         | 141.77    |
| March 1905 Expenses of ——— .....     |         | 204.00    |
| Freights .....                       |         | 191.79    |
| Commissions, February and March..... |         | 30.40     |
| Legal Expenses .....                 |         | 763.23    |
| CR. BALANCE, as above.....           |         | 1675.88   |
|                                      |         | <hr/>     |
|                                      |         | \$3879.94 |

### CREDITS.

### BAD DEBTS RECOVERED:—

|  |          |         |
|--|----------|---------|
| Superior F. & T. Co.....   | \$ 31.50 |         |
| Coll. through M. & A. (name not entered in Cash Book).....   | 11.25    |         |
| Unclaimed Credit .....   | 4.68     |         |
| ———, Agent, 85 per cent of this account transferred, representing estimated profit on special purchases 1904-1905... | 3832.51  |         |
|  |          | <hr/>   |
|  |          | 3879.94 |
|  |          | <hr/>   |

A portion of the above charge for Legal Expenses should have been charged to The Coal Mining & Shipping Co., and also a part to the Retail Coal Co. as the bill rendered by the attorneys covers organization of The Coal Mining & Shipping Co., and various other services.

### SUNDRY PROFIT AND LOSS ACCOUNTS.

The amounts entered under the above heading are the totals of the various balances of Profit and Loss Accounts as at Sept. 30th, 1906. No Profit and Loss Accounts can be submitted covering the six months, as the accounts included under this heading were not closed.



## ACCOUNTS NOS. 8 AND 9. ACCOUNTS RECEIVABLE AND PAYABLE.

In these accounts are given the balances of all Sundry Debtor and Creditor Accounts as on Sept. 30th, 1906, which have been carefully examined and verified. Those accounts which appeared doubtful are listed at the close of Account No. 8.

### DIVIDEND ACCOUNT NO. 1.

Below are the details of this account:—

|   |            |
|---|------------|
| CREDIT. TRANSFER FROM PROFIT AND LOSS                 |            |
| for dividend of 8 per cent declared May 7th, 1906.... | \$16072.00 |
| DEBITS. DISTRIBUTED TO STOCKHOLDERS,                  |            |
| as follows:—  |            |
| Name, 1431 shares.....                                | \$11448.00 |
| Name, 352 shares.....                                 | 2816.00    |
| Name, 176 shares.....                                 | 1408.00    |
| Name, 50 shares.....                                  | 400.00     |
|   | 16072.00   |

After the payment of this dividend there remains a surplus of \$1403.32 from the business of the season of 1905-1906, as shown on your Books of Account.

### PROFIT AND LOSS ACCOUNT. OLD.

The Surplus of \$17,326.24 as at March 31st, 1906, was carried to this account and the account has since been changed by the following entries, which represent losses and gains of the season 1905-1906:—

|  |            |            |
|--|------------|------------|
| CREDIT BALANCE, March 31st, 1906.....  | \$17326.24 |            |
| Adjusting Claims .....   | 4.14       |            |
| Transfer ———, Agent.....   | 676.33     |            |
| 15 per cent of credit balance, representing estimated profit on special purchases in 1906. |            |            |
| Unclaimed Credits:—  |            |            |
| Name, August, 1904.....  | \$167.19   |            |
| Name, October, 1905.....   | 36.23      | 203.42     |
| B. & O. Fuel Co. Account.....  |            | 4.00       |
| Refund from Subscription to Coal Assn.....   |            | 2.25       |
|  |            | \$18216.38 |

### CHARGES.

|   |            |            |
|---|------------|------------|
| Dividend No. 1, 8 per cent.....           | \$16072.00 |            |
| Reduction and cancellation of claims..... | 493.78     |            |
| Freights .....                            | 147.61     |            |
| Loss on Cargo of "Inter Ocean".....       | 41.69      |            |
| Carried forward .....                     | \$16755.08 | \$18216.38 |

|                                       |              |                       |
|---------------------------------------|--------------|-----------------------|
| Brought forward .....                 | \$16755.08   | \$18216.38            |
| Bad Debts:—                           |              |                       |
| Name .....                            | \$ 2.35      |                       |
| Name .....                            | 3.40         |                       |
| Name .....                            | 41.30        |                       |
| Name .....                            | 10.93        |                       |
|                                       | <u>57.98</u> |                       |
|                                       |              | <u>16813.06</u>       |
| CREDIT BALANCE, Sept. 30th, 1906..... | \$           | <u><u>1403.32</u></u> |

### PROFIT AND LOSS ACCOUNT (1906-1907).

The following charges have been made to this account:—

|                                |                       |
|--------------------------------|-----------------------|
| Reduction of Claims.....       | \$17.97               |
| Cost of re-consigning car..... | 5.00                  |
| BALANCE, Sept. 30th, 1906..... | <u><u>\$22.97</u></u> |

The charges for reduction and cancellation of claims should be made against the account which is credited at the time claims are made.

The cost of re-consigning shipments should be charged against Freight Account, as it is an additional delivery charge.

### CASH.

The Cash Balance of \$17,639.96, as shown on Account No. 7, was verified and the details are given herewith:—

#### CASH IN BANKS:—

|                                    |                   |
|------------------------------------|-------------------|
| Tenth National, Chicago.....       | \$ 9813.91        |
| Eleventh National, Chicago.....    | 7992.16           |
| Fifth National, Denver.....        | 1058.23           |
| Sixth National, Omaha.....         | 810.01            |
| Peoples Savings, Butte .....       | 2006.02           |
| Seventh National, Seattle.....     | 349.66            |
| Eighth National, Olympia.....      | 642.57            |
| Ninth National, San Francisco..... | 4.14              |
|                                    | <u>\$22676.70</u> |

|   |                   |
|---|-------------------|
| CHEQUES on hand to deposit.....             | <u>484.78</u>     |
|   | <u>\$23161.48</u> |
| LESS: CURRENCY OVERDRAFT (due Treasurer) .. | 5521.52           |

|                        |                          |
|------------------------|--------------------------|
| BALANCE, as above..... | <u><u>\$17639.96</u></u> |
|------------------------|--------------------------|

The Currency Overdraft was caused by entering a currency disbursement of \$10,000.00 during September in exchange for cheque, and cheque not being issued until October.

The amount of Cash on hand with your Treasurer on the morning of Oct. 1st, 1906, was counted and found to be made up as follows:—

|                                   |            |
|-----------------------------------|------------|
| Exchange for cheque as above..... | \$10000.00 |
| Less: Overdraft .....             | 5521.52    |

|                              |                   |
|------------------------------|-------------------|
| BALANCE, Oct. 1st, 1906..... | <u>\$ 4478.48</u> |
|------------------------------|-------------------|

This balance consisted of:—

CASH:—

|                |           |
|----------------|-----------|
| Currency ..... | \$1023.00 |
| Coin .....     | 2.75      |

\$1025.75

|  |       |
|--|-------|
| ADD: Cash received 10/1 for Yard Sales<br>during September ..... | 76.10 |
|--|-------|

\$1101.85

|  |       |
|--|-------|
| LESS: Payment to —— charged his<br>Sept. Account ..... | 15.00 |
|--|-------|

\$ 1086.85

TICKETS:—

|  |           |
|--|-----------|
| Name, dated May 15th, 1906, for stock<br>from —— ..... | \$2500.00 |
|--|-----------|

|                        |        |
|------------------------|--------|
| Name, paid to —— ..... | 500.00 |
|------------------------|--------|

|  |        |
|--|--------|
| Name, Sundry advances dated July to Sep-<br>tember ..... | 295.00 |
|--|--------|

|            |       |
|------------|-------|
| Name ..... | 25.00 |
|------------|-------|

|            |       |
|------------|-------|
| Name ..... | 10.00 |
|------------|-------|

|            |      |
|------------|------|
| Name ..... | 2.00 |
|------------|------|

|                               |       |
|-------------------------------|-------|
| Name (no regular ticket)..... | 29.01 |
|-------------------------------|-------|

3361.01

|                      |      |
|----------------------|------|
| REVENUE STAMPS ..... | 5.15 |
|----------------------|------|

\$ 4453.01

|                          |       |
|--------------------------|-------|
| ADD: CASH SHORTAGE ..... | 25.47 |
|--------------------------|-------|

|             |                          |
|-------------|--------------------------|
| TOTAL ..... | <u><u>\$ 4478.48</u></u> |
|-------------|--------------------------|

We cannot too strongly criticise the practice of carrying such large tickets as Cash on hand, as any large amounts advanced for more than a few days should be charged upon the Books of Account.

The cash shortage above noted and the entire omission of two vouchers paid during July (Nos. 3920 and 3923 amounting to \$31.30) would indicate that sufficient time was not given to the keeping of the Petty Cash Account. We recommend the use of a Petty Cash Book in which to record all currency transactions, and from which all entries would be posted to the Ledgers. This book could be kept by a clerk having charge of the currency, and thereby relieve your Treasurer of this clerical work and allow him more time for other duties. We suggest that currency transactions and cash balances in Petty Cash Account, be kept as small as possible, making disbursements by cheques where practicable.

The Bank Balances as shown by Cash Book were reconciled with the statements rendered by the Banks and found to agree.

### CHEQUES.

All cheques returned from Banks were carefully examined as to signatures, endorsements, etc., and the amounts of same were compared with the corresponding entries in Cash Books, and were found in order with the following exceptions:—

Cheques Nos. 134, 135 and 136 on the Peoples Savings Bank were not seen, although we were informed the bank claimed they had returned them, and had charged them on their statement.

Cheques not endorsed by payees:—No. 1816, Tenth National, Chicago, to ———, \$250.00, and No. 3179, Tenth National, Chicago, to ———, \$27.50.

Cheques Nos. 3121 to 3125 incl. and 3128 on Tenth National, Chicago, were not countersigned.

Cheque No. 1757, Tenth National, Chicago, and No. 537, Eleventh National, Chicago, were for exchange on collections prior to March 31st, 1905, amount \$30.28. These were charged to Exchange Account, but should have been charged to Old Coal Co. Profit and Loss.

We found that an unusually large number of cheques were marked "Void," which would indicate a lack of care in making them out.

### VOUCHERS.

All vouchers on file were carefully examined and compared with the corresponding entries in Cash Books, and with a few exceptions were found in order.



A number of the vouchers were not certified as correct by the parties who made them out and a few were found which were not approved by an officer of the Company.

Voucher No. 3809 in favor of ——— was made for \$45.00, but the entry in Cash Book, folio 47, was for \$60.00. As this was the amount of his salary, we presume the cash book entry is correct.

Voucher No. 3920, Name, \$1.05.

Voucher No. 3923, Name, \$30.25.

These were made out and paid during July, 1906, but we found they were not entered in Cash Book.

The following vouchers were not seen by us:—

No. 1499. July 2, 1905. Mine Plant A/c. Purchase of Land  
\$4500.00.

No. 1632. July 26, 1905. Freight A/c. ———. 5418.67.

No. 2183. Oct. 26, 1905. ———. 247.80.

No. 4139. August, 1906.

No. 4252. September, 1906.

No. 4272. September, 1906.

No. 4280. September, 1906.

No. 4304. September, 1906.

No. 4317. September, 1906.

No. 4318. September, 1906.

No. 4366. September, 1906.

No. 4139 and the succeeding vouchers were not returned at the time we made the examination.

Vouchers were seen for nearly all cash disbursements. Below we give a list of all disbursements in excess of \$1.00, charged to impersonal accounts, for which no vouchers were seen:—

| 1905.    | Folio. | Name of Account.                   | Amount. |
|----------|--------|------------------------------------|---------|
| Apr. 30. | 213.   | Expense. Petty Exp. ....           | \$ 3.60 |
| June 30. | 241.   | Expense. Stamps and Sundries.....  | 5.32    |
| June 29. | 241.   | Expense. Stamps and Sundries.....  | 7.48    |
| July 31. | 255.   | Expense. Stamps (3 items).....     | 2.96    |
| Aug. 30. | 265.   | Omaha Agency. Currency to ——— .... | 122.00  |
| Aug. 31. | 267.   | Expense. Stamps .....              | 3.24    |
| Aug. 31. | 267.   | Mine Gen. Expense. Stamps.....     | 2.20    |
| Oct. 23. | 299.   | Expense. Charity "W. W. Home"..... | 2.00    |
| Dec. 31. | 337.   | Expense. Stamps .....              | 9.08    |
| 1906.    |        |                                    |         |
| Jan. 31. | 355.   | Expense. Stamps .....              | 1.85    |

| 1906.    | Folio. | Name of Account.                 | Amount. |
|----------|--------|----------------------------------|---------|
| Feb. 28. | 371.   | Expense. Stamps .....            | \$ 3.42 |
| Mch. 26. | 385.   | Mine Plant A/c. Ck. to ——— ..... | 1000.00 |
| June 29. | 49.    | Expense. Stamps .....            | 1.72    |
| July 5.  | 61.    | Expense. ——— .....               | 50.00   |

The Revenue Stamps are considered as Cash on hand until used, and when used the details of same should be entered on the Monthly Petty Expense Vouchers.

### CASH BOOK ADDITIONS AND POSTINGS.

All additions were verified and all postings checked from Ledgers, only one error being found, as below:—

Cash Book Fo. 289, charge of \$11.05 to Dock No. 1 Insurance A/c. was posted to Dock No. 2 Insurance Account.

### JOURNALS.

#### VOUCHERS.

An attempt was made to verify all credits to personal accounts where the amounts were charged against the impersonal accounts.

Invoices were seen for nearly all credits for purchases, but after examining the Bookkeeper's memos. on file, we find a very large number of credits for allowances, etc., for which no memoranda are filed, and in fact, many of those seen were of little value as they had not been approved. We recommend the use of a form of Journal Voucher for all allowances and special credits, which can be written by your bookkeepers and filed in numerical order. The Journal entries will not then require to be written in detail as at present, as each entry will indicate the voucher number. The vouchers will, of course, be approved by whoever authorizes the entries.

#### DOCK VOUCHERS AND PAY-ROLLS.

We carefully examined all Dock Vouchers, comparing them with the corresponding journal entries and found them in good order. A number of the Dock Pay-Rolls were also scrutinized and compared with credits for same on Journal and found to agree. We did not examine all Dock Pay-Rolls as we understand they are carefully

checked over by your bookkeepers before being credited to the Agencies. We suggest the desirability of having the Superintendents at the Agencies certify to the correctness of the Pay-Rolls, before they are forwarded to the Chicago Office.

#### MINE NO. 1 PAY-ROLLS.

The Mine Pay-Rolls were found to be made out by your Mine Clerk and the extensions and additions of same verified by the bookkeepers in the Chicago Office, but there is absolutely no check as to the names entered on the rolls and the earnings credited to each.

The Pay-Rolls should be approved by the Foremen and Mine Superintendent, or if this is impracticable, alternate Time Books could be kept for each Department or division and these should be approved by the Foremen and forwarded to the Chicago Office with the Pay-Rolls.

If it is not considered feasible to have Departmental Pay-Rolls, which the employes can sign on receiving their pay, loose receipts should be taken and forwarded to the Chicago Office, where they could be compared with the Pay-Rolls at intervals.

#### ADDITIONS AND POSTINGS OF JOURNAL ENTRIES.

All additions in the various Journals were carefully verified and the posting of all charges to impersonal accounts and of credits to all accounts was checked and found correct.

#### LEDGERS.

All of the Ledger Accounts were verified and the Trial Balances as at April 1st, 1905, March 31st, 1906, and Sept. 30th, 1906, were proven correct.

The examination of the accounts as kept prior to March 31st, 1906, in a large General Ledger and a Dock Ledger required considerable time, and the ledgers now used are more satisfactory. We consider that the keeping of accounts with the employes for their regular monthly salaries, is quite unnecessary, and one voucher could be made each month to cover the Office Pay-Roll, to which would be attached the individual receipts of the employes.

## VOUCHER SYSTEM.

The present method of filing vouchers and invoices in separate places, the entering of credits in the Journals for all purchases and the consequent keeping of many individual creditors' accounts, involves considerable clerical work which would be obviated by the use of a modern Voucher Journal or Record. Such a Record would have separate columns for the charging of purchases, etc., to the various merchandise and expense accounts in monthly totals, and all credits would be posted in a monthly total to an Audited Vouchers Account, except where an individual credit account was desirable for some special reason. While the requirements of your business would probably demand some further study before a new Voucher System is devised, we believe considerable improvement can be made in this direction.

## DISTRIBUTION OF ACCOUNTS.

While we found many distributive accounts are kept for costs at Docks and Mine, a careful examination of the various accounts revealed an apparent lack of method in making the distributions, which has reduced the value of the same to some extent.

We particularly noticed the distribution of purchases for Supplies and Repairs at the Docks, which seem to have been charged to the Discharging, Loading and other accounts as was considered correct by the Bookkeepers there.

The charging of miscellaneous tools, etc., to a Personal Property Account was erroneous, as this practice tends to create a fictitious asset, owing to most of the purchases being in the nature of renewals and replacements of worn out property.

In the Mine Accounts we found many maintenance expenses charged to Improvement Account and some permanent improvements charged to the Expense Accounts. New Machinery was charged in some instances to Plant Account and in others to Improvement Account.

We are of the opinion that considerable improvement can be made in this direction, which would greatly increase the value of the accounts, but the particular requirements of your business will demand further investigation by us, before we could make specific recommendations as to the most desirable changes.



The charge of \$50.00 per month made against The Retail Coal Co. for office work in Chicago Office, seems to be rather low, and if the charge is not approximately correct, the stockholders of The Retail Coal Co. profit at the expense of The Coal Mining & Shipping Co.

#### DEPRECIATION.

This subject requires careful consideration in almost every line of business, particularly where the cost of replacements, repairs and temporary improvements are carried to an Improvement or Plant Account.

We presume the amount written off monthly for Royalty is considered ample for Depreciation of Mines, but the question of writing off certain percentages on other assets, such as Machinery, Improvements, etc., should be given careful thought.

It would be advisable to have an appraisal made in the near future of the property at the mines, to determine whether the book values are approximately correct, and if not, adjusting entries should be made.

#### RECEIVING BOOKS.

A correct Receiving Book, the need of which at the Mines is referred to in the first part of this Report, would consist of a record book ruled with columns in which to enter details of purchases. The headings of the columns should be as follows:—

Date of Receipt.

From Whom Received.

Description of Articles.

Remarks.

Date Invoice Approved (or sent to Chicago Office).

Such a record book carefully kept will be of service in checking up all invoices and will practically prevent duplicate bills being passed.

#### GENERAL REMARKS.

With the exception of a rather large number of erasures in the various books, which should not be permitted, the office force deserves commendation for neat and accurate work.

Every facility was afforded us by the staff during our investigation.

Respectfully submitted,

(Signed) GEORGE B. RENN.

ACCOUNT  
THE COAL MINING AND  
BALANCE SHEET

## ASSETS.

|   |            |                    |
|---|------------|--------------------|
| CASH .....                                  |            | \$ 33071.47        |
| BILLS RECEIVABLE .....                      | \$ 4550.00 |                    |
| Less: Bills Discounted .....                | 4393.93    |                    |
|   |            | 156.07             |
| ACCOUNTS RECEIVABLE:—                       |            |                    |
| —, Stock Account .....                      | 160.00     |                    |
| Old Coal Co. Profit and Loss Account....    | 1880.63    |                    |
| Sundry Accounts .....                       | 75976.55   |                    |
|   |            | 78017.18           |
| AGENCY ACCOUNTS:—                           |            |                    |
| Butte, Mont. ....                           | 11610.59   |                    |
| Seattle, Wash. ....                         | 152.36     |                    |
| Omaha, Neb. ....                            | 51210.61   |                    |
| Denver, Colo. ....                          | 23102.91   |                    |
|   |            | 86076.47           |
| SPECIAL ACCOUNTS .....                      |            | 14655.43           |
| CONSIGNMENT ACCOUNTS:—                      |            |                    |
| Name .....                                  | 697.13     |                    |
| Name .....                                  | 74.53      |                    |
|   |            | 771.66             |
| SALARY ACCOUNTS:—                           |            |                    |
| Name .....                                  | 10.00      |                    |
| Name .....                                  | 76.60      |                    |
| Name .....                                  | 269.40     |                    |
|   |            | 356.00             |
| TELEPHONE COUPONS .....                     |            | 121.89             |
| STOCK as per Inventory:—                    |            |                    |
| Coal at Mines .....                         | 7328.80    |                    |
| Coal at 77th St. Yard.....                  | 1307.27    |                    |
| Coal at Dock No. 1.....                     | 48393.05   |                    |
| Coal at Dock No. 2.....                     | 38373.91   |                    |
| Wood at Saw Mill.....                       | 2795.54    |                    |
| Supplies at Mines .....                     | 527.65     |                    |
|   |            | 98726.22           |
| REAL ESTATE, PLANT, IMPROVEMENTS,<br>ETC.:— |            |                    |
| Mine No. 1 Real Estate and Plant.....       | 67597.01   |                    |
| Mine No. 1 Improvements.....                | 25733.14   |                    |
| Saw Mill .....                              | 1745.10    |                    |
| Personal Property Dock No. 1.....           | 322.18     |                    |
| Personal Property Dock No. 2.....           | 137.03     |                    |
|   |            | 95534.46           |
| FURNITURE AND FIXTURES .....                |            | 658.30             |
|   |            | <u>\$408145.15</u> |

NO. 1.

SHIPPING CO., CHICAGO.

As on March 31st, 1906.

## LIABILITIES.

|                            |             |             |
|----------------------------|-------------|-------------|
| CAPITAL STOCK .....        | \$250000.00 |             |
| Less: Treasury Stock ..... | 49100.00    |             |
|                            | <hr/>       | \$200900.00 |
| BILLS PAYABLE .....        |             | 110202.29   |

## ACCOUNTS PAYABLE:—

|                               |          |          |
|-------------------------------|----------|----------|
| ——, Stock Account .....       | 18.15    |          |
| Name .....                    | 97.75    |          |
| Name .....                    | 15.66    |          |
| Mine No. 1 Order Account..... | 1221.42  |          |
| ——, Agent .....               | 4508.84  |          |
| Retail Coal Co.....           | 33906.46 |          |
| Sundry Creditors .....        | 25101.08 |          |
|                               | <hr/>    | 64869.36 |

## SALARY AND COMMISSION ACCOUNTS:—

|            |        |        |
|------------|--------|--------|
| Name ..... | 370.60 |        |
| Name ..... | 42.65  |        |
| Name ..... | 75.00  |        |
| Name ..... | 148.96 |        |
|            | <hr/>  | 637.21 |

## ACCRUED ACCOUNTS:—

|                          |         |          |
|--------------------------|---------|----------|
| Freight .....            | 9408.75 |          |
| Mine No. 1 Pay-Roll..... | 4485.18 |          |
| Saw Mill Pay-Roll.....   | 316.12  |          |
|                          | <hr/>   | 14210.05 |

|                                     |       |          |
|-------------------------------------|-------|----------|
| SURPLUS (as per Account No. 2)..... | <hr/> | 17326.24 |
|-------------------------------------|-------|----------|

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\$408145.15

ACCOUNT  
THE COAL MINING AND  
GENERAL PROFIT AND LOSS ACCOUNT

CHARGES.

|          |  |                |           |
|----------|--|----------------|-----------|
| 1905.    |  |                |           |
| Apr. 1.  | INVENTORY. Coal on hand at Mine.....     | \$ 2581.17     |           |
| 1906.    |  |                |           |
| Mch. 31. | PURCHASES AND COST OF PRODUCTION:—       |                |           |
|          | Outside Purchases of Coal and Wood ..... | \$279065.85    |           |
|          | Coal from Mine No. 1.....                | 123468.39      |           |
|          | Wood from Saw Mill (see Contra)          | 1853.97        |           |
|          | Wood purchased .....                     | \$ 3514.00     |           |
|          | Cutting and Loading Wood .....           | 1135.51        |           |
|          |  | <u>4649.51</u> |           |
|          | Coal for 77th St. Yard.                  | \$1873.99      |           |
|          | Unloading and Switching at 77th St.....  | 51.00          |           |
|          |  | <u>1924.99</u> |           |
|          |  |                | 410962.71 |

SELLING AND GENERAL EXPENSES:—

|   |                   |                    |
|---|-------------------|--------------------|
| Rent of Chicago Office.   | \$ 1200.00        |                    |
| Salaries of Officers....  | 13200.00          |                    |
| Salaries of Employees at Chicago office..                       | 9816.93           |                    |
|   | <u>\$24216.93</u> |                    |
| Less 1/3 charged to Dock A/c. and 1/3 charged to Mine A/c. .... | 16064.62          | \$ 8152.31         |
| Traveling Expenses .....  | 2034.98           |                    |
| Stationery and Printing.....                                    | 1016.99           |                    |
| Telephone and Telegraph \$818.-86, Postage \$791.75.....        | 1610.61           |                    |
| Adv. and Subscription to Coal Journals .....                    | 492.55            |                    |
| Commercial Agencies .....                                       | 233.83            |                    |
| Commissions .....   | 141.73            |                    |
| Supplies at Saw Mill.....                                       | 32.08             |                    |
| Maps and Shipping Guides....                                    | 54.50             |                    |
| Coal Association Dues.....                                      | 40.00             |                    |
| Chicago Shippers Assn.....                                      | 28.00             |                    |
| Sundries .....  | 388.62            | 14226.20           |
| Carried forward .....   |                   | <u>\$427770.08</u> |



# A SPECIMEN REPORT

83

NO. 2.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

## CREDITS.

1906.

Mch. 31. INVENTORIES:—

|                            |            |                    |
|----------------------------|------------|--------------------|
| Coal at Mines .....        | \$ 7328.80 |                    |
| Wood at Saw Mill.....      | 2795.54    |                    |
| Coal in 77th St. Yard..... | 1307.27    |                    |
|                            |            | <u>\$ 11431.61</u> |

## SALES:—

|                                    |             |                    |
|------------------------------------|-------------|--------------------|
| Coal and Wood sold through         |             |                    |
| General Coal Account .....         | \$430802.98 |                    |
| Coal sold from 77th St. Yard....   | 617.72      |                    |
| Wood sold to Coal A/c. from        |             |                    |
| Saw Mill .....                     | 1853.97     |                    |
| Overcharge Account .....           | 653.87      |                    |
|                                    |             | <u>\$433928.54</u> |
| Less Shortage and Allowances ..... | \$1090.75   |                    |
| Car Service .....                  | 234.00      |                    |
|                                    |             | <u>1324.75</u>     |
|                                    |             | 432603.79          |

|                                      |         |
|--------------------------------------|---------|
| UNCLAIMED CREDITS .....              | 603.94  |
| COMMISSIONS from Retail Coal Co..... | 2133.00 |

## MINE NO. 1 PROFIT AND LOSS ACCOUNT,

|   |               |
|---|---------------|
| Net Gain at Mine per Account No. 6..... | <u>262.77</u> |
|---|---------------|

Carried forward .....\$447035.11

## RENN'S PRACTICAL AUDITING

ACCOUNT  
THE COAL MINING AND  
GENERAL PROFIT AND LOSS ACCOUNT

|   |                    |
|---|--------------------|
| Brought forward .....                     | \$427770.08        |
| PERSONAL PROPERTY TAXES 1905.....         | 298.99             |
| INSURANCE, Saw Mill .....                 | 79.25              |
| LEGAL EXPENSE, Saw Mill Account.....      | 15.25              |
| COAL, one car sacrificed for Freight..... | 48.00              |
| DOCK GENERAL PROFIT AND LOSS A/c.         |                    |
| Net Loss at Docks (A/c. No. 3).....       | 403.04             |
| BALANCE, Profit carried down.....         | 18420.50           |
|   | <u>\$447035.11</u> |
| INTEREST ON BORROWED CAPITAL.             |                    |
| (Less Interest and Discount earned).....  | \$ 883.48          |
| DONATIONS AND CHARITY.....                | 383.01             |
| BAD DEBTS CHARGED OFF:—                   |                    |
| Name .....                                | \$1.10             |
| Name .....                                | 2.00               |
|   | <u>3.10</u>        |
| SURPLUS .....                             | 17326.24           |
|   | <u>\$ 18595.83</u> |

NO. 2.—Continued.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

Brought forward .....\$447035.11

\$447035.11

BALANCE, Profit brought down..... \$ 18420.50

B. &amp; O. FUEL CO. ACCOUNTS..... 169.90

BAD DEBTS RECOVERED:—

Name .....\$0.47

Name ..... 4.96

5.43\$ 18595.83

ACCOUNT  
THE COAL MINING AND  
DOCK GENERAL PROFIT AND LOSS ACCOUNT

## LOSSES.

## DOCK NO. 1 PROFIT AND LOSS ACCOUNT.

|                           |            |
|---------------------------|------------|
| (See Account No. 4) ..... | \$ 7117.61 |
| OMAHA AGENCY .....        | 543.29     |

## SUNDRY CHARGES:—

|   |                        |
|---|------------------------|
| Proportion of Chicago Office Salaries and   |                        |
| Rent .....                                  | \$8032.31              |
| Salary of San Francisco Agent .....         | 1200.00                |
| Traveling Expenses (Officers) .....         | 704.65                 |
| Telegraph Bill of San Francisco Agent....   | 188.95                 |
| Printing and Stationery .....               | 163.36                 |
| Collection Expenses .....                   | 31.66                  |
| Sundries .....                              | 19.37                  |
|   | <hr/> 10340.30         |
| BALANCE, Profit on Operating carried down.. | 2713.89                |
|   | <hr/> <hr/> \$20715.09 |
| INTEREST ON BORROWED CAPITAL, less          |                        |
| Interest and Discount earned .....          | \$2958.93              |
| DONATIONS .....                             | 152.25                 |
| BAD DEBTS:—                                 |                        |
| Name .....                                  | 5.75                   |
|   | <hr/> <hr/> \$3116.93  |



NO. 3.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

## GAINS.

## DOCK NO. 2 PROFIT AND LOSS ACCOUNT.

|  |            |
|--|------------|
| (See Account No. 5.) .....                                 | \$ 8033.37 |
| DENVER AGENCY. (90 per cent of Net Profit.)                | 697.96     |
| SUPERIOR COAL ACCOUNT. (Details shown<br>in Report.) ..... | 8322.68    |
| STEAMER FUEL ACCOUNT .....                                 | 3661.08    |

---

---

\$ 20715.09

BALANCE, Profit brought down..... \$ 2713.89

|  |        |
|--|--------|
| LOSS carried to General Profit and Loss Ac-<br>count. (See Account No. 2)..... | 403.04 |
|--|--------|

---

---

\$ 3116.93

ACCOUNT  
THE COAL MINING AND  
DOCK NO. 1 PROFIT AND LOSS ACCOUNT

|          |  |                    |
|----------|--|--------------------|
| 1905     | CHARGES.   |                    |
| Apr. 1.  | INVENTORY:—  |                    |
|          | Coal on hand .....   | \$ 8500.15         |
| 1906.    |  |                    |
| Mch. 31. | PURCHASES AND COST OF HANDLING:—                                       |                    |
|          | Cargo Coal purchased .....   | \$114787.68        |
|          | Car Coal .....   | 9743.09            |
|          | A. & B. Coal .....   | 5031.13            |
|          | Retail Coal purchased from A. & B. Co. ....                            | 15522.72           |
|          | Retail Coal purchased from Outside .....                               | 5809.53            |
|          | Freight on Cargo Coal .....  | 32064.52           |
|          | Freight on Rail Coal .....   | 299.16             |
|          | Switching .....  | 9.00               |
|          | Discharging Bituminous. (See Report) .....                             | 6691.84            |
|          | Discharging Anthracite. (See Report) .....                             | 2645.17            |
|          | Loading Bituminous. (See Report) .....                                 | 8462.41            |
|          | Loading Anthracite. (See Report) .....                                 | 7936.18            |
|          |  | <u>\$209002.43</u> |
|          | SELLING AND GENERAL EXPENSES:—   |                    |
|          | Commissions:—  |                    |
|          | Bituminous Car Coal Sales .....  | \$2617.53          |
|          | Anthracite Car Coal Sales .....  | 812.70             |
|          |  | <u>\$3430.23</u>   |
|          | Traveling Expenses .....   | 465.26             |
|          | Salaries .....   | 2525.00            |
|          | General and Dock Expense. (See Report) .....                           | 6596.47            |
|          | Teaming .....  | 2558.02            |
|          | Postage, Printing and Stationery. ....                                 | 185.73             |
|          | Telephone and Telegraph .....  | 164.35             |
|          |  | <u>15925.06</u>    |
|          | TAXES AND INSURANCE .....  | 1785.70            |
|          | CARGO INSURANCE .....  | 275.58             |
|          |  | <u>\$235488.92</u> |
|          | BALANCE, Loss brought down ....  | \$6507.08          |
|          | INTEREST ON BORROWED CAPITAL (less Interest and Discount earned) ..... | 610.53             |
|          |  | <u>\$7117.61</u>   |

# A SPECIMEN REPORT

89

NO. 4.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

## CREDITS.

1906.

Mch. 31. INVENTORY:—

|                    |             |
|--------------------|-------------|
| Coal on hand ..... | \$ 48393.05 |
|--------------------|-------------|

SALES:—

|                      |  |
|----------------------|--|
| Bituminous Coal sold |  |
|----------------------|--|

|                 |             |
|-----------------|-------------|
| Customers ..... | \$121730.38 |
|-----------------|-------------|

|                      |  |
|----------------------|--|
| Anthracite Coal sold |  |
|----------------------|--|

|                 |          |
|-----------------|----------|
| Customers ..... | 21383.14 |
|-----------------|----------|

|  |             |
|--|-------------|
|  | \$143113.52 |
|--|-------------|

|                        |          |
|------------------------|----------|
| Less: Sales to Retail. | 36687.66 |
|------------------------|----------|

|  |             |
|--|-------------|
|  | \$106425.86 |
|--|-------------|

|                     |  |
|---------------------|--|
| Retail Coal sold to |  |
|---------------------|--|

|                 |          |
|-----------------|----------|
| Customers ..... | 62864.84 |
|-----------------|----------|

|                    |  |
|--------------------|--|
| Cargo Coal sold to |  |
|--------------------|--|

|                 |       |
|-----------------|-------|
| Customers ..... | 80.79 |
|-----------------|-------|

|  |             |
|--|-------------|
|  | \$169371.49 |
|--|-------------|

Less:—

|                       |  |
|-----------------------|--|
| Bituminous Coal Sales |  |
|-----------------------|--|

|                |  |
|----------------|--|
| Discount a n d |  |
|----------------|--|

|                |         |
|----------------|---------|
| Shortage ..... | \$14.60 |
|----------------|---------|

|                      |       |
|----------------------|-------|
| Overage and Shortage | 78.43 |
|----------------------|-------|

|                     |  |
|---------------------|--|
| Retail Discount and |  |
|---------------------|--|

|                |       |
|----------------|-------|
| Shortage ..... | 94.12 |
|----------------|-------|

|  |        |
|--|--------|
|  | 187.15 |
|--|--------|

|  |           |
|--|-----------|
|  | 169184.34 |
|--|-----------|

DISCHARGING BITUMINOUS

AND LOADING BITU-

MINOUS for others .....

|  |        |
|--|--------|
|  | 187.60 |
|--|--------|

ANTHRACITE COMMISSION..

|  |          |
|--|----------|
|  | 10735.01 |
|--|----------|

SUNDRY CREDITS:—

|                         |          |
|-------------------------|----------|
| Unclaimed Freight ..... | \$260.47 |
|-------------------------|----------|

|                  |       |
|------------------|-------|
| Steam sold ..... | 35.70 |
|------------------|-------|

|                             |  |
|-----------------------------|--|
| Gain in Inventory of Retail |  |
|-----------------------------|--|

|            |       |
|------------|-------|
| Coal ..... | 18.32 |
|------------|-------|

|  |        |
|--|--------|
|  | 314.49 |
|--|--------|

FOREIGN COAL ACCOUNT.

|                    |  |
|--------------------|--|
| (See Report) ..... |  |
|--------------------|--|

|  |        |
|--|--------|
|  | 167.35 |
|--|--------|

BALANCE, Loss carried down....

|  |         |
|--|---------|
|  | 6507.08 |
|--|---------|

|  |             |
|--|-------------|
|  | \$235488.92 |
|--|-------------|

BALANCE, Net Loss carried to

|                         |  |
|-------------------------|--|
| Dock General Profit and |  |
|-------------------------|--|

|                    |  |
|--------------------|--|
| Loss Account ..... |  |
|--------------------|--|

|  |           |
|--|-----------|
|  | \$7117.61 |
|--|-----------|

|  |           |
|--|-----------|
|  | \$7117.61 |
|--|-----------|

ACCOUNT  
THE COAL MINING AND  
DOCK NO. 2 PROFIT AND LOSS ACCOUNT

## CHARGES.

|          |   |             |
|----------|---|-------------|
| 1905     |   |             |
| Apr. 1.  | INVENTORY:—                                     |             |
|          | Coal on hand .....                              | \$ 17329.21 |
| 1906     |   |             |
| Mch. 31. | PURCHASES AND COST OF<br>HANDLING:—             |             |
|          | Cargo Coal Account, Cargo<br>Purchases .....    | \$131364.23 |
|          | Cargo Coal Account, Car Pur-<br>chases .....    | 4526.03     |
|          | Retail Coal purchased from<br>A. & B. Co. ....  | 3125.47     |
|          | Retail Coal purchased from<br>Outside .....     | 413.31      |
|          | Cargo Freights .....                            | 31747.94    |
|          | Switching .....                                 | 433.00      |
|          | Discharging Bituminous. (See<br>Report) .....   | 12609.05    |
|          | Discharging Anthracite. (See<br>Report) .....   | 2037.94     |
|          | Loading Anthracite. (See Re-<br>port) .....     | 3012.44     |
|          | Loading Bituminous. (See Re-<br>port) .....     | 7119.97     |
|          |   | <hr/>       |
|          |   | 196389.38   |
|          | SELLING AND GENERAL EX-<br>PENSES:—             |             |
|          | Commissions:—                                   |             |
|          | Bituminous Car<br>Coal Sales ....               | \$1511.15   |
|          | Anthracite Car<br>Coal Sales ....               | 580.31      |
|          |   | <hr/>       |
|          | Traveling Expenses .....                        | \$ 2091.46  |
|          | Salaries .....                                  | 194.96      |
|          | General and Dock Expense.<br>(See Report) ..... | 2158.32     |
|          | Teaming .....                                   | 5553.66     |
|          | Postage, Printing and Station-<br>ery .....     | 85.41       |
|          | Telegraph and Telephone .....                   | 187.76      |
|          |   | <hr/>       |
|          |   | 115.46      |
|          |   | <hr/>       |
|          |   | 10387.03    |
|          | TAXES AND INSURANCE.....                        | 730.53      |
|          | CARGO INSURANCE .....                           | 259.71      |
|          | BALANCE, Profit carried down..                  | 8414.27     |
|          |   | <hr/>       |
|          |   | \$233510.13 |
|          |   | <hr/>       |



NO. 5.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

## CREDITS.

1906.

Mch. 31. INVENTORY:—

|                    |             |
|--------------------|-------------|
| Coal on hand ..... | \$ 38373.91 |
|--------------------|-------------|

## SALES:—

|                       |             |
|-----------------------|-------------|
| Anthracite Coal Sales |             |
| to Customers ....     | \$ 26127.46 |

|                       |           |
|-----------------------|-----------|
| Bituminous Coal Sales |           |
| to Customers ....     | 155071.30 |

---

|  |             |
|--|-------------|
|  | \$181198.76 |
|--|-------------|

|                        |         |             |
|------------------------|---------|-------------|
| Less: Sales to Retail. | 8837.46 |             |
|                        | <hr/>   | \$172361.30 |

|                                 |          |
|---------------------------------|----------|
| Retail Sales to Customers ..... | 14213.49 |
|---------------------------------|----------|

---

|  |             |
|--|-------------|
|  | \$186574.79 |
|--|-------------|

## Less:—

|                 |           |
|-----------------|-----------|
| Bituminous Coal |           |
| Discount and    |           |
| Shortage ....   | \$ 145.04 |

|                 |       |
|-----------------|-------|
| Retail Discount |       |
| and Shortage    | 33.22 |

|              |        |
|--------------|--------|
| Overage and  |        |
| Shortage ... | 110.29 |

---

|  |        |
|--|--------|
|  | 288.55 |
|--|--------|

---

|  |           |
|--|-----------|
|  | 186286.24 |
|--|-----------|

|                             |            |
|-----------------------------|------------|
| DISCHARGING Bituminous Car- |            |
| goes .....                  | \$ 3604.34 |

|                             |        |
|-----------------------------|--------|
| DISCHARGING Anthracite Car- |        |
| goes .....                  | 863.43 |

|                              |       |         |
|------------------------------|-------|---------|
| (Unloading boats for others) | <hr/> | 4467.77 |
|------------------------------|-------|---------|

|                          |  |         |
|--------------------------|--|---------|
| ANTHRACITE COMMISSION .. |  | 4382.21 |
|--------------------------|--|---------|

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---

|  |             |
|--|-------------|
|  | \$233510.13 |
|--|-------------|

|  |             |
|--|-------------|
| ACCOUNT  |             |
| THE COAL MINING AND  |             |
| DOCK NO. 2 PROFIT AND LOSS ACCOUNT   |             |
| INTEREST ON BORROWED<br>CAPITAL (less Interest and<br>Discount earned) .....                 | \$ 766.19   |
| PROFIT CARRIED TO DOCK<br>GENERAL PROFIT AND<br>LOSS ACCOUNT. (See Ac-<br>count No. 3) ..... | 8033.37     |
|  | <hr/>       |
|  | \$ 8799.56  |
|  | <hr/> <hr/> |

NO. 5.—Continued.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

|   |            |
|---|------------|
| BALANCE, Profit brought down..                  | \$ 8414.27 |
| PLANT ACCOUNT, Dock Prop-<br>erty re-sold ..... | 275.00     |
| DOCK OVERAGE ACCOUNT,<br>Season 1904-1905 ..... | 110.29     |
|   | <hr/>      |
|   | \$ 8799.56 |
|   | <hr/>      |

ACCOUNT  
THE COAL MINING AND

MINE NO. 1 PROFIT AND LOSS ACCOUNT

|          |  |             |                    |
|----------|--|-------------|--------------------|
| 1905.    | CHARGES.   |             |                    |
| Apr. 1.  | INVENTORIES:—  |             |                    |
|          | Supplies and Merchandise .....                       | \$ 345.48   |                    |
|          | Powder .....   | 170.37      |                    |
|          |  |             | \$ 515.85          |
| 1906.    |  |             |                    |
| Mch. 31. | SUPPLIES AND SUNDRY PURCHASES:—                      |             |                    |
|          | Powder .....   | \$ 5271.19  |                    |
|          | Oil (lubricating and illuminating) .....             | 1175.30     |                    |
|          | Water .....  | 353.70      |                    |
|          | Switching Coal .....                                 | 69.22       |                    |
|          | Miscellaneous Supplies .....                         | 626.37      |                    |
|          | Hay and Feed .....                                   | 1331.11     |                    |
|          | Sawdust .....  | 49.00       |                    |
|          | Coal purchased from other operators .....            | 3262.24     |                    |
|          |  |             | 12138.13           |
|          | LABOR:—  |             |                    |
|          | Mining .....   | \$ 65687.16 |                    |
|          | Day Work .....                                       | 28053.98    |                    |
|          | Yardage .....  | 6086.18     |                    |
|          | Horsebacks and Room Turning .....                    | 2002.86     |                    |
|          |  |             | 101830.18          |
|          | SUNDRY EXPENSES:—                                    |             |                    |
|          | Proportion of Chicago Office Rent and Salaries ..... | \$ 8032.31  |                    |
|          | Fuel used (including some coal donated) .....        | 2370.25     |                    |
|          | Teaming, Hauling and Grading .....                   | 763.98      |                    |
|          | Horseshoeing, Veterinary, etc. ..                    | 50.40       |                    |
|          | Harness Repairs .....                                | 97.80       |                    |
|          | Freight, Switching and Express .....                 | 739.68      |                    |
|          | Traveling Expenses, etc. ....                        | 621.78      |                    |
|          | Telegraph and Telephone .....                        | 109.73      |                    |
|          | Postage, Printing and Stationery .....               | 93.22       |                    |
|          | Coal Associations .....                              | 69.95       |                    |
|          | Sundries .....                                       | 251.18      |                    |
|          |  |             | 13200.28           |
|          | MAINTENANCE. (See Report for details) .....          |             | 2943.30            |
|          | TAXES AND INSURANCE. (See Report) .....              |             | 1265.42            |
|          | ROYALTY. (Credited to Plant Account) .....           |             | 3772.19            |
|          | SPECIAL CHARGES:—                                    |             |                    |
|          | Consulting Mining Engineer .....                     | \$ 344.33   |                    |
|          | Legal Expense .....                                  | 280.95      |                    |
|          |  |             | 625.28             |
|          | BALANCE, Profit carried down....                     |             | 2872.90            |
|          |  |             | <u>\$139163.53</u> |



NO. 6.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

## CREDITS.

1906.

Mch. 31. INVENTORIES:—

|                               |           |           |
|-------------------------------|-----------|-----------|
| Supplies and Merchandise..... | \$ 517.51 |           |
| Powder .....                  | 10.14     |           |
|                               |           | \$ 527.65 |

SALES:—

|                                  |             |           |
|----------------------------------|-------------|-----------|
| Coal to General Coal Account.... | \$123468.39 |           |
| Coal to Miners .....             | 1509.72     |           |
| Coal to Sundry Customers.....    | 1707.69     |           |
| Powder to Sundry Customers....   | 1.75        |           |
| Powder to Miners .....           | 8785.00     |           |
| Supplies and Merchandise.....    | 1283.80     |           |
| Scrap Iron sold .....            | 38.12       |           |
|                                  |             | 136794.47 |

|  |         |
|--|---------|
| MINE ORDER DISCOUNT.....                       | 524.15  |
| RENTS .....                                    | 82.25   |
| DIVIDENDS FROM COAL ASSN.                      | 1223.30 |
| PROFIT ON CASH SALES<br>THROUGH COAL ASSN..... | 11.71   |

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\$139163.53

ACCOUNT  
THE COAL MINING AND  
MINE NO. 1 PROFIT AND LOSS ACCOUNT

## CHARGES.

1906.

Mch. 31. INTEREST ON BORROWED CAPITAL  
(less Interest and Discount earned)..... \$ 1721.53

## BAD DEBTS CHARGED OFF:—

|            |         |       |
|------------|---------|-------|
| Name ..... | \$43.75 |       |
| Name ..... | 3.75    |       |
| Name ..... | 5.00    |       |
| Name ..... | 5.90    |       |
|            |         | 58.40 |

DONATIONS (except Coal donated)..... 42.38

MACHINERY AND IMPROVEMENTS (see  
Report) ..... 229.22

LOSS, SEASON 1904-1905. (Invoice for Pow-  
der omitted from Liabilities March, 1905).. 558.60

PROFIT carried to General Profit and Loss  
Account (see Account No. 2)..... 262.77

\$ 2872.90

NO. 6.—Continued.

SHIPPING CO., CHICAGO.

for the year ended March 31st, 1906.

## CREDITS.

1906.

Mch. 31. BALANCE, Profit brought down.....\$ 2872.90

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\$ 2872.90

ACCOUNT  
THE COAL MINING AND  
SUMMARIZED TRIAL BALANCE,

ASSETS.

CASH .....\$ 17639.96

ACCOUNTS RECEIVABLE:—

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Name .....                            | \$ 27.85  |           |
| 77th St. Yard Cash Sales Account..... | 15.00     |           |
| Accident and Guaranty Co.....         | 125.00    |           |
| ——, Stock Account.....                | 248.00    |           |
| ——, Coal Co.....                      | 303.33    |           |
| ——, Dividend Account.....             | 884.00    |           |
| Sundry Debtors A. and B. Ledger.....  | 5590.83   |           |
| Sundry Debtors Personal Ledger.....   | 110273.79 |           |
|                                       |           | 117467.80 |

AGENCY ACCOUNTS:—

|                     |          |          |
|---------------------|----------|----------|
| Butte, Mont. ....   | 9973.10  |          |
| Seattle, Wash. .... | 3595.16  |          |
| Omaha, Neb. ....    | 66579.01 |          |
| Denver, Colo. ....  | 19083.75 |          |
|                     |          | 99231.02 |
|                     |          | 2280.60  |

SPECIAL ACCOUNTS .....

CONSIGNMENT ACCOUNTS:—

|            |        |        |
|------------|--------|--------|
| Name ..... | 141.95 |        |
| Name ..... | 470.03 |        |
|            |        | 611.98 |

SALARY ACCOUNTS:—

|                                      |        |        |
|--------------------------------------|--------|--------|
| Advances on Pay Roll Mine No. 1..... | 12.72  |        |
| Name .....                           | 130.21 |        |
| Name .....                           | 290.30 |        |
|                                      |        | 433.23 |

STOCK, as per Book Values:—

|                            |          |           |
|----------------------------|----------|-----------|
| Coal at Mines.....         | 4517.43  |           |
| Coal at 77th St. Yard..... | 1846.19  |           |
| Coal at Dock No. 1.....    | 79468.14 |           |
| Coal at Dock No. 2.....    | 83411.16 |           |
| Wood at Saw Mill.....      | 4973.27  |           |
|                            |          | 174216.19 |

REAL ESTATE, PLANT, IMPROVEMENTS,  
ETC.:—

|                                       |          |           |
|---------------------------------------|----------|-----------|
| Mine No. 1 Real Estate and Plant..... | 71528.38 |           |
| Mine No. 1 Improvements.....          | 28879.63 |           |
| Saw Mill .....                        | 1805.46  |           |
| Personal Property Dock No. 1.....     | 550.20   |           |
| Personal Property Dock No. 2.....     | 296.48   |           |
| Personal Property 77th St. Yard.....  | 74.50    |           |
|                                       |          | 103134.65 |

FURNITURE AND FIXTURES.....

688.30

\$515703.73



NO. 7.

SHIPPING CO., CHICAGO.

As on September 30th, 1906.

## LIABILITIES.

|                            |             |             |
|----------------------------|-------------|-------------|
| CAPITAL STOCK .....        | \$250000.00 |             |
| Less: Treasury Stock ..... | 49100.00    |             |
|                            |             | \$200900.00 |
| BILLS PAYABLE .....        |             | 190382.67   |

## ACCOUNTS PAYABLE:—

|   |          |          |
|---|----------|----------|
| Name .....                                | 15.66    |          |
| Name .....                                | 37.50    |          |
| Name .....                                | 250.00   |          |
| Old Coal Co. Profit and Loss Account..... | 1675.88  |          |
| Retail Coal Co.....                       | 18999.44 |          |
| Sundry Creditors .....                    | 73292.72 |          |
|   |          | 94271.20 |

## SALARY AND COMMISSION ACCOUNTS:—

|            |        |         |
|------------|--------|---------|
| Name ..... | 500.00 |         |
| Name ..... | 250.00 |         |
| Name ..... | 150.00 |         |
| Name ..... | 23.00  |         |
| Name ..... | 148.96 |         |
| Name ..... | 100.00 |         |
| Name ..... | 50.00  |         |
|            |        | 1221.96 |

## ACCRUED ACCOUNTS:—

|                               |         |         |
|-------------------------------|---------|---------|
| Freight .....                 | 2471.55 |         |
| Mine No. 1 Pay Roll.....      | 4934.53 |         |
| Mine No. 1 Order Account..... | 1698.66 |         |
| Saw Mill Pay Roll.....        | 171.24  |         |
|                               |         | 9275.98 |

## SUMMARY OF PROFIT AND LOSS ACCOUNTS..... 19651.92

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\$515703.73

## ACCOUNT NO. 8.

This account consists of a schedule of the debtors' accounts carried in the A. & B. Ledger, and the Personal Ledger. The items are assembled under headings of "folio," "name" and "amount," and are also classified under "good," "doubtful" or "bad." The total of these accounts agrees with the items in Account No. 7, which represent them.

It is not considered necessary to reproduce this schedule in detail.

## ACCOUNT NO. 9.

This is a schedule of the Sundry Creditors shown in total in Account No. 7. The items are assembled under headings of "folio," "name" and "amount."

## PART III

### SPECIAL AUDITS

#### FIRST AUDIT OF BOOKS OF CORPORATIONS

In auditing the affairs of a corporation for the first time more is involved than a mere auditing of the trade books of account, for the process of organization and later corporate acts are also subjects for inspection. These details will be found in the corporation books, and it is essential that the auditor possess a full understanding of what constitutes a set of these records and the purposes for which they are used. A complete set comprises the minute book, subscription book, stock certificate book, transfer book, stock ledger, and dividend book.

##### **Minute Book.**

In this book are recorded the transactions of all meetings of stockholders, and of the board of directors. The by-laws are also entered in it, and copies of all corporate papers, including the charter.

##### **Subscription Book.**

This book contains a list of subscriptions to the capital stock, showing the names of subscribers, and the number and par value of the shares subscribed for by each.

**Stock Certificate Book.**

This book is composed of blank certificates and stubs. The certificates are issued to stockholders as evidence that their subscriptions have been paid in full, and from entries on the stubs postings are made to the stock ledger, crediting each stockholder with the number of shares held by him.

**Transfer Book.**

This book contains printed forms, with blanks to be filled in transferring stock from one person to another. Through the medium of these forms a stockholder may transfer all or part of his holdings. The stubs of the transfer book become the exclusive journal to the stock ledger, after the original issue has been entered from the certificate book.

**Stock Ledger.**

As indicated above, postings to this book are made in the first instance from the stubs of the stock certificate book to the credit of the individual stockholders. Thereafter the entries are made from the stubs of the transfer book, and they consist always of an even transfer as regards debit and credit amounts. Therefore the credit balance of the stock ledger, plus Treasury Stock, should always agree with Capital Stock balance in the general ledger. This book serves as a convenient register of stockholders in the corporation, since it contains the names of all shareholders and the number of shares held by each.

**Dividend Book.**

In this book are written the names, addresses and holdings of each stockholder who has a credit balance in the stock ledger at the time a dividend is declared. It serves as a convenient record for the distribution of dividends.



Frequently small corporations dispense with the less important of these records, and it is often the case that only a minute book and a stock certificate book are kept.

The auditor should make a careful preliminary study of the charter and by-laws of the corporation to determine the privileges, as well as the limitations, under which the company is operating. Next he should read the minutes of all meetings of the directors, to ascertain what special acts have been authorized. Having acquainted himself with these facts he will be in a position to examine the various transactions incident to organization as shown in the corporation books, and later the operating entries in the regular books of account.

The stubs in the stock certificate book are to be checked into the stock ledger, and a schedule is to be drawn from the stubs classifying the issue under "preferred" or "common." From this may be ascertained whether the shares have been issued in accordance with the articles of incorporation, as regards the two classes.

At the same time it will be shown whether the issue is within the limit authorized by the charter. This is also a good time for the auditor to assure himself that the total of the outstanding stock is fully stated in the general ledger.

If any transfers have been made the stubs in the transfer book are to be checked into the stock ledger, and it is to be noted whether the original certificates (now canceled) have been re-attached to their stubs in the stock certificate book.

It is next in order to ascertain what consideration was received by the corporation in exchange for its capital stock. There are two methods by which subscriptions may be settled—one is the direct payment of cash; the other is through exchange of some valuable consideration, such as services rendered, or transfer of property.

It is of the first importance that the cash proceeds from capital stock issues should appear in the regular cash book, therefore

the auditor should check from the cash book against the stock certificate stubs. This will leave unchecked such stubs of certificates as were issued in exchange for some other consideration, and those must be compared with the record in the minute book to ascertain whether they were issued upon proper authority from the directors. The return derived from the exchange of capital stock must appear in the regular books of account under some heading which expresses its character.

If it is found that stock has been issued to a promoter in settlement of his services, the auditor should ascertain whether steps have been taken to extinguish this expense.

The audit of the regular books of account is to be conducted as described in Part II. During its progress the auditor should observe whether important transactions, such as the acquisition of property, the placing of mortgages thereon, the declaration of dividends, etc., have been duly sanctioned by the board of directors.

## PERIODICAL AUDIT

*The Periodical Audit* is so called from the fact that it covers a statistical period—usually an entire fiscal year. The one described in Part II is an example of a periodical audit.

## CONTINUOUS AUDIT

*The Continuous Audit* is the same as the periodical audit in regard to details of inspection, but it is taken up at shorter intervals—usually once a month. After the first audit subsequent audits take up the work at the point where the previous one ended. In this way the audit is carried to the end of the fiscal period, at which time the report is rendered.

## INVESTIGATION ON ACCOUNT OF SUSPECTED FRAUD

This kind of work calls for the auditor's best efforts, as it is frequently a case where his wits are opposed by those of another.

The occasion for an investigation of this kind may arise from a variety of causes. It may be due to an embezzling clerk or cashier; or it may be a case where the gross profits are not in proportion to the amount of the turnover, which would indicate theft of merchandise or concealment of sales. In a great many cases it is merely "a suspicion that something is wrong."

Again, the investigation may be needed on account of manipulation by a tricky partner who aims to gain an advantage over his less acute associate. This course is sometimes prompted by the preponderance of capital interest held by one partner over the other, who hopes by apparently depreciating the value (or earnings) of the business to make an advantageous purchase of the discouraged partner's interest.

Before entering upon actual work, the auditor should make a careful survey of conditions in order to localize the difficulty, if possible. It is also important that he should mask the real object of the investigation, which may be accomplished best by making it appear that it is merely a routine audit. The course of the investigation will be determined largely by the department under suspicion, or by the opportunities of the suspected individual.

If the cashier is the suspected person, the investigation should be centered in the first instance upon the cash book, and the open accounts receivable. This involves, as the first step, the balancing of the cash book and verification of the balance; then the bank statement with returned cheques should be procured, and from them the auditor will draw up the reconciliation himself. Next, verification statements should be sent to all book debtors, as described under Controlling Account.



Both sides of the cash book are to be footed for the entire period under audit, and extreme care is to be taken that the footings are forwarded correctly both as respects amounts and location in columns. Doubtful figures must be investigated. Cash sales and all other cash receipts, outside of those from credit sales customers, are to be checked from their place of record into the cash book.

The cash credits in all ledgers are to be checked from the ledgers into the cash book, and it must be ascertained positively that the opening and closing balances in the cash book agree with the respective balances of the cash account in the ledger.

The deposits as shown in the bank book are to be identified with the entries in the cash book, where this is possible; otherwise the individual items from the deposit slips are to be traced into the cash book.

Sometimes the auditor may intercept an effort at "kiting," or an attempted eleventh-hour restitution, by comparing with the cash book the actual contents of an outgoing deposit before it has passed out of the office.

The disbursement side of the cash book must be vouched rigidly. Original invoices as well as receipts must be exacted for all charges to impersonal accounts, and great caution is to be observed that the two do not represent duplicate entries. The invoices must, of course, be properly O. K.'d as respects receipt of goods and correctness of price and extension. All charges to personal accounts must be supported by receipts and the reasons for payment are to be ascertained. Attention should also be given to the character of the charges to impersonal accounts, especially those which are easily "loaded," such as expense, salaries, wages, and merchandise accounts.

The returned bank cheques are to be scrutinized in respect to name of payee and amount, and they are also to be compared with the entries in the cash book in regard to the same. All



endorsements on cheques are to be examined for possible evidence of collusion.

If suspicion points to the concealment of sales, the first point to be investigated is the cash sales department. Inspection should be made to ascertain whether the safeguards are adequate, and then the entries in the cash book from this source should be checked against the initial records of cash sales. These usually consist of counterfoil copies of sales tickets, or the inside record of a cash register.

Another possible leak may be the shipment of goods on "charge" accounts without entry in the sales book. This may be due to lack of system, or it may be done advisedly for the purpose of appropriating the proceeds when payment is sent in. To discover whether this has been going on the auditor should check the shipping records against the sales book.

In cases where outright theft of merchandise is suspected, some system for detection should be adopted, and should include a system of double-checking the contents of all packages before they leave the establishment. Proper precautions should also be taken at the doors to prevent employees from carrying out stolen goods when they quit work. A reorganization of the shipping room staff may also prove beneficial.

If suspicion of theft is based solely upon the percentage of gain on the turnover, it might be well, before instituting other investigations, to determine definitely whether the per cent added for profit is really as much as it is thought to be.

If there is belief that the difficulty centers in the purchasing department, a thorough analysis of the merchandise purchase account is indicated as the first step. Then all charges thereto are to be checked with the original invoices, which are to be examined closely in regard to all salient points, viz.: date, to whom made out, and whether properly O. K.'d as regards receipt of goods, quantities, prices and extensions. A feature of some importance is that invoices should appear on printed forms. All

endorsements on returned bank cheques relating to purchase of merchandise are to be scrutinized for possible indication of collusion. A survey of the internal check on invoices should also be made, to determine whether the responsibility for passing them is sufficiently distributed.

The foregoing suggestions are based on conditions where the circumstances direct attention to some particular department, thus localizing the investigation. Where there is merely a general suspicion that "something is wrong," and the auditor cannot by himself discover any specific "lead," then the general audit described in Part II is indicated as the correct course to follow.

The method of auditing the books in complete detail is also to be followed in cases of partnership disagreements, of which mention has been made. As a preliminary step the auditor should make a careful study of the co-partnership agreement, and observe during the audit whether its provisions have been duly carried out as respects the individual rights of each partner.

### EXAMINATION ON BEHALF OF AN INTENDING PURCHASER

Examinations on behalf of intending purchasers are made principally with the object of determining the earning capacity of the business. Therefore the attention of the auditor should be directed chiefly to an investigation of the statistical accounts, to ascertain:

*First.* The amount of the sales by monthly comparison, and whether they are *bona fide*.

*Second.* The cost of the goods sold, and whether the cost is fully stated; also the *per cent* of gross gain on the turnover.

*Third.* The expenses and what *per cent* they bear to the turnover; also whether they are fully stated.

*Fourth.* What amount of working capital is required to conduct the business.

The foregoing points should be investigated for a period of sufficient length to afford ample opportunity for comparison, and to serve as a chart for judging whether the enterprise is prospering, or the contrary. The investigation should cover at least three years' business and, when practicable, should cover five years.

Aside from the information which can be gathered from the books, there is also the speculative consideration whether the enterprise is capable of expansion. This feature is considered later in this chapter under "Good-Will."

To proceed to the examination in detail:

In making a sale of course the cash on hand is not involved, consequently no attention need be paid to the correctness of the cash balance.

As regards the open accounts receivable and bills receivable, if they are to be purchased outright without a reserving clause, they will require the most rigid investigation, both as to their genuineness and their realizable values. A cautious purchaser, however, will reserve to himself the right to charge back such as shall prove uncollectible, and will also withhold a fair portion of the purchase money to protect himself in regard to them. Where such a clause is inserted in the contract, no investigation is required in respect to these accounts, other than to check them from the trial balance into the ledger as proof that they are properly recorded.

*The Stock of Merchandise* will need to be inventoried, as of the date when the sale is consummated, and valuations should be made, by agreement, either upon invoice cost less proper allowance for depreciation, or by appraisal. In this connection it should be ascertained whether the goods have been paid for, and if it is found that they are still unpaid, proper provision should be made for payment in concluding the purchase.

*Real Estate, Buildings and Personal Property* would doubtless be sold at an upset price, or by appraisal. However, the auditor should ascertain their cost by analyzing and checking with



vouchers, in complete detail, the accounts which represent them. A point of especial importance is to examine all titles to the properties, and to ascertain at the place of record whether they are encumbered, and if so, to what extent.

*Good-Will* is an intangible kind of asset, but has value in proportion to the actual prosperity of the enterprise, and even prospective prosperity may be accorded some attention. There are many considerations which enter into the value of good-will. The primary one, of course, is the earning capacity of the enterprise; then, where the property is not held in freehold, there is the question of the duration of the leasehold; the prospects of its renewal; the amount of competition in the neighborhood; whether the business is capable of expansion, etc.

The value of good-will is usually determined by the principals to a sale, and without doubt they are influenced by the auditor's statistical statement, gathered from the books of account, and by his report of surrounding conditions. To qualify himself to value good-will, the auditor must cultivate the ability to make broad surveys of conditions through observation and by judicious inquiry.

*Patents* should be valued according to earnings, and it would be necessary also to consider whether the earnings are on the increase or not. A further point for attention is to ascertain what remains of the patent's original term of seventeen years. As patents are manifestly assignable, investigation should also be made into present ownership.

*Copyrights* would be valued in almost the same manner as a patent. A point of difference is that the original term of a copyright runs for twenty-eight years, and is subject to renewal for a further term of fourteen years; but as this renewal is restricted to the author or designer, or to his widow or children, it is evident that an outside purchaser would be limited to the original period of twenty-eight years. However, copyrights usually outlive their earning power long before the original term has expired.



## CONDENSED OUTLINE OF AN EXAMINATION

In explanation of the following outline it may be said that there is not much likelihood of either assets or earnings being understated by the vendor; on the contrary, the danger is that the earning capacity may be represented too favorably through understatement of cost, or through omission of expenses.

Check the latest trial balance into the ledgers, and verify the footings of the trial balance.

Draw up a balance sheet.

Analyze all capital accounts from their beginnings, and examine vouchers for all charges to those accounts.

Analyze the following accounts for the entire period under examination, and in summarizing place the monthly totals of the various classes of items opposite each other during the different years, for comparison:

SALES ACCOUNT,

PURCHASE ACCOUNT,

ALL EXPENSE ACCOUNTS.

This analysis will indicate pretty clearly whether there have been any suspicious fluctuations in the business. If it shows either an extraordinary increase in sales lately, or an unnatural reduction in purchases, or a conspicuous decrease in the expenses, there will be cause to suspect an attempt at "salting," and closer investigation will be required.

If, on the other hand, the figures run about normally, they may be accepted as genuine, although the sales book may still be examined profitably for the last thirty days or so, to make sure that there has been no inflation of sales.

In preparing the Trading account and the Profit and Loss account for his report, the auditor should state separately any items which would be subject to modification under a different management; such as salaries of officers or managers, rent, interest on

borrowed capital, etc. Where no salary has been charged up for the proprietor's services, that fact must be noted in the report, in order that proper allowance may be made for this item, in estimating future expenses. Also any earnings not strictly a result of business transactions should be stated separately.

To ascertain the working capital employed in a business, take the amount of the share capital actually paid in; add the liabilities to trade creditors; deduct the charges to investment accounts, and the cash on hand. The remainder will be the actual working capital investment.

To arrive at an estimated value of the inventory for advance information, deduct from the sales account an average per cent for gross profit, and subtract the remainder from the purchase account. The balance is the approximate value of the inventory.

*Liabilities* of the vendor do not concern an intending purchaser further than to require precautions that there shall be no lien against his purchase.

So far as liabilities are any indication of the condition of the business, that information can be gathered from the balance sheet.

### EXAMINATION ON BEHALF OF A CREDITOR, ACTUAL OR PROSPECTIVE

The purpose of this kind of an examination is to ascertain from the debtor's books one of two things: whether a loan or other indebtedness already in effect is secure; or, whether a loan or grant of credit pending may be extended with safety.

If the loan is to be made upon a mortgage secured by real estate, the examination should be confined to matters relating to the property concerned. Its value should be ascertained either from the cost shown by the books, or by appraisal. The title is to be inspected and inquiry is to be made at the recorder's office in regard to records of title; also, whether the property is en-

cumbered, and if so, to what extent. A report embodying the foregoing would cover the requirements.

If, on the other hand, it is to be a short-time loan or a grant of credit, such as nearly all trading concerns need from time to time, the examination should be directed to a thorough inspection of the "quick" assets, and to a survey of the liabilities, in order to determine whether the assets which are easily convertible into cash are sufficiently in excess of the liabilities to warrant the accommodation.

Real estate investments are not usually given much attention in connection with unsecured loans; although such investments, less encumbrances, must of course be stated upon the balance sheet. They should be in a separate division from the "quick" assets.

## EXAMINATION IN DETAIL

Check the latest trial balance into the ledger.

From the trial balance construct a balance sheet.

Examine the assets in the following manner:

*The Cash Balance.* Where the cash balance is stated at a modest amount, it may be accepted without investigation further than to check the item from the balance sheet into the cash book.

Should the cash appear abnormally large, however, it will be necessary to make close inspection, for the carrying of a large cash balance while seeking credit would seem inconsistent.

*Bills Receivable.* The possibilities in bills receivable for fabricating assets have been demonstrated amply. If circumstances permit, the auditor should in all cases confirm bills receivable by communication with the reputed drawers. However, in an examination of this character it is hardly permissible to resort to that measure, and the auditor must be content with a preliminary examination of the notes in respect to date, amount, time, where and to whom payable, and signature.



After seeing that none of the notes are past due, they should be checked into the debtors' accounts in the ledgers, to make sure that they came through regular channels.

In the case of notes, either singly or collectively, for an unusually large amount from a single debtor, inquiry should be made as to his responsibility; it might be well also to inspect the contract or order through which the obligation was incurred.

After the notes have passed inspection they should be listed, and the total should agree of course with the bills receivable item on the balance sheet.

*Accounts Receivable* should be examined in the ledgers in detail:

*First.* As to their origin; whether they originated in the sales book or, if elsewhere, of what they consist.

*Second.* As to the length of time they have been outstanding; whether they are due or past due. In the case of past due accounts it should be ascertained what are the expectations of securing payment.

*Third.* In the case of unusually large accounts, inquiry should be made into the standing of the debtors.

*Fourth.* Inquire whether there are any heavy offsets to be considered; such, for instance, as freight charges on carload lots which were sold at a delivered price, with the freight following shipment.

It would seem to be unnecessary, but it will be safer, to inquire whether all trade discounts were deducted before sales were charged into the ledgers. The matter of probable cash discount on sales accounts may be disregarded in an examination of this kind.

*Inventory of Merchandise.* Where an inventory is submitted, it may be confirmed approximately by deducting from the purchase account the estimated cost of the goods sold in the manner de-



scribed in the preceding section. Where no inventory is furnished, it may be estimated by the same process.

*Furniture and Fixtures*, and personal property in general may be listed at book values, unless they appear excessive. This class of assets should be placed on the balance sheet in the same division with the other investment accounts.

*Real Estate and Buildings*. The item of real estate in this kind of an examination has been treated already. Buildings upon leased ground should be so stated, giving book values and the time limits of the lease.

*Good-Will and Leaseholds* have comparatively little value in connection with a loan, and should be placed in last position upon the assets side of the balance sheet.

## LIABILITIES AND REVENUE ACCOUNTS

*Liabilities* should be looked into carefully to ascertain whether they are stated fully upon the books. Reference should be made to the purchase account to see whether the more recent purchases have been entered. From there they should be followed, to learn whether they have been paid for, or, if not, whether they appear among the liabilities as unpaid accounts.

The bank deposit book should be inspected for the last four months preceding the examination, for entries of personal notes discounted; and such notes should in turn be followed into bills payable account, and from there to the balance sheet.

*Expense Accounts* should be examined in detail; and by comparisons it can be learned whether all important expenses for the recent period have been met.

*Purchase Account* inspection for a recent period has been provided for already. However, the examination of this account may be extended profitably to include a comparison of the monthly

totals for the last six months with those for the same period of the year before. This inspection should expose any protracted failure to enter purchases on the books.

*Sales Account* should be compared similarly for a six months' period, to prove that there has been no "padding" of sales. It must be remembered that the accounts receivable have been accepted as genuine, largely from the fact that they appeared in the ledgers as having originated in the sales book.

### CONCLUSION OF THE EXAMINATION

If credit is to be based solely upon the net surplus and character of the assets the investigation is completed by verification of the balance sheet, as outlined above.

If it is required, however, to secure information also in regard to the earning capacity of the business, the auditor should analyze the purchase account, the sales account, and the various expense accounts for a period of two years at least, and show the monthly results for each year in parallel columns. It would be necessary also to furnish a yearly Trading Statement and Profit & Loss account.

### FINAL AUDIT

#### FOR THE PURPOSE OF PARTNERSHIP ADJUSTMENT IN CASE OF A RETIRING OR DECEASED PARTNER

This kind of an audit is markedly similar to the one described in detail in Part II of this manual, for the conditions demand that it shall be made in a thorough and exhaustive manner. In this case, however, the period to be reviewed cannot be left to choice, but must cover the entire term of the partnership; unless an audit has been made at some previous time, in which case the new audit would begin at the point where the old one left off.

After procuring the usual abstract in the form of a trial balance and verification of the cash, the next step is to make a careful study of the co-partnership agreement. A thorough understanding of this document is imperative, in order that its stipulations may be safeguarded during the progress of the audit.

The principal points in these agreements comprise:

*First*; the date of the agreement, and the names of the respective partners and their places of residence.

*Second*; the firm name under which it is proposed to conduct business, the line of trade to be engaged in, location, date of beginning and term of duration.

*Third*; the amount of capital to be contributed by each partner.

*Fourth*; the amount of time and attention to be devoted to the business by each partner.

*Fifth*; the amount of salary to be drawn by each partner.

*Sixth*; limitation on cash withdrawals by partners.

*Seventh*; the rate of interest (if any) to be credited to the partners on their investments. Also the rate of interest to be charged on withdrawals.

*Eighth*; apportionment of profits or losses between the partners.

*Ninth*; assignment of special duties to individual partners, especially the right to sign cheques and other negotiable papers.

*Tenth*; the signature of each partner to the agreement, properly witnessed.

In connection with the partnership agreement the auditor should give special attention to the following points:

(a) That each partner has actually contributed his share to the capital, and whether he has devoted his agreed proportion of time and attention to the business.

(b) That each partner has received his full compensation in the shape of salary, and that none has been overpaid. Also that the partners have been duly credited with interest on their investments, if the agreement stipulated it.

(c) That capital withdrawals have all been charged to the proper individual accounts of the partners, and that interest on same has been charged in accordance with the agreement.

(d) That profits or losses have been carried in proper proportion to the individual accounts of the partners.

(e) Although not specifically mentioned in the agreement, it is the auditor's duty to see that each partner's personal account has been charged with all purchases made through the firm for his private use, as well as any merchandise taken by him from stock.

There are still other points to which more particular attention is to be paid than in an ordinary audit, especially as regards provision for contingencies. It must be remembered that this audit will be a concluded one, and therefore does not afford much opportunity for later rectification of oversights.

Usually the call for an audit of this kind comes from the retiring partner's side. Therefore, in his capacity of representing the absent partner, the auditor should endeavor to protect the interests of his client. Of course this does not mean that any undue advantage is to be taken by him, but rather that none is to be permitted to the other side.

In valuing the inventory of stock on hand, the rule of "cost or market, whichever is lowest," does not apply in this case. The retiring partner is entitled to his share of full cost, plus all expenses of placing staple merchandise in its present location; but in the case of certain lines which have deteriorated in value by growing stale or out of date, the rule of charging at cost does



not apply and an appraisal must be made by independent appraisers.

Fixtures should be valued at cost less proper allowance for depreciation.

Good-will should be valued upon the basis of past earnings, with due consideration for the fact that the business is a "going" concern.

Where an immediate settlement is to be concluded, the book accounts should be valued according to their ratings under analysis. However, where circumstances permit of the necessary delay, a much more equitable way is to postpone final adjustment in order to give opportunity for payment of the better class of these accounts. Under this arrangement no further entries should be made in the ledgers containing these accounts except such as relate to their settlement. An adjustment account needs to be opened, to which allowances should be charged and from which they should be carried eventually to the accounts of the respective partners. The proceeds of collections should, of course, be divided among the partners. After a reasonable time the residue of these accounts could be valued much more accurately than at first.

The auditor should survey recent expenditures to determine whether they included any prepayments, such as rent, discount on notes given at the bank, insurance, etc. If such are found, the retiring partner is to be credited with his share.

In justice to the continuing partner a survey should be made also in respect to accrued accounts, such as wages, interest, taxes, etc., earned but unpaid. If such are found, the retiring partner is to be charged with his share.

The routine work of the audit, if followed as suggested in the beginning of this article, will have verified the revenue accounts. Finally, a careful examination of the balance sheet should be made for the detection of any possible oversight.

## DIFFERING FEATURES IN AUDITS OF VARIOUS LINES OF BUSINESS

### AUDITING TRADING CONCERNS

The audit described in detail in Part II of this manual covers every requirement for auditing the books of a trading concern.

### AUDITING MANUFACTURING ESTABLISHMENTS

In auditing the books of a manufacturing concern, or any enterprise where labor is an extensive factor, the pay-rolls are an important feature for the auditor's attention. He should assure himself that safeguards are in force which will prevent the carrying of "dummy" names, or any over-payment to real employes. There should be a sufficient distribution of the work in preparing the pay-roll to prevent collusion, and the pay-roll should be certified finally by the manager or foreman. It is desirable, also, that the actual paying of the wages should be done by some person who has no connection with the preparation of the pay-roll.

If further investigation seems to be desirable, an occasional pay-roll should be checked into the time book, and the extensions and footings should be verified.

It is important that a proper factory-cost system should be maintained, and if it is lacking the auditor should recommend its installation.

Probably the point in which the audit of a manufacturing concern differs most from other lines is in connection with the inventory. In the case of a factory the inventory of stock consists really of three divisions, viz.: raw material, partly finished stock, and finished stock.

*Raw Material* is to be valued at initial cost, plus all expenses incurred in bringing it into the warehouse.

*Partly Finished Stock* is valued at the cost, upon the above basis, of the raw material which has actually been used towards its construction, plus the direct labor so far expended on it, and its proper percentage of overhead expenses.

*Completed Stock* is valued upon the same lines as partly finished stock, but includes its entire cost to completion.

## AUDITING MINING ENTERPRISES

The remarks in the foregoing article in relation to pay-rolls apply equally to those of a mining concern.

There should also be an efficient system for determining monthly the result of the operations from the revenue point of view.

Often there is much confusion in the distribution of expenditures between capital accounts and expense accounts. The auditor should see that any errors of that kind are corrected.

Another important point is to ascertain whether provision is being made for extinguishing the capital accounts, in anticipation of the ultimate exhaustion of the mineral. The method usually followed is to set aside each month a reserve based on the tonnage mined during that month.

## AUDITING BANKS

It is to be understood that these suggestions for bank auditing are not limited to governmental inspection requirements. The federal as well as the state bank examiners work under direction of their respective departments, and their instructions require an investigation adapted to the special purposes of those departments. Their mission is to ascertain whether the banks are solvent, and that the banking laws are being observed.



Moreover, owing to the large number of inspections assigned to each examiner, it would be a physical impossibility for him to make the detailed inspection in each case which is contemplated in this article. Therefore the following suggestions are to be construed as covering the requirements of an independent audit, made by a professional auditor.

So far as it relates directly to the books of account, the audit of a bank does not differ materially from that of any other line of business. To do the work thoroughly, the same attention should be paid to the details of footing the books of original entry, and following the entries forward into the general ledger, as would be given to the books of a trading concern. The revenue expenditures and transfers through the journal should be supported by vouchers, the same as in other lines of business.

At this point, however, the banking business assumes distinctive features, for, dealing exclusively in cash, there can be no equivalent to the Trading Account of other lines; therefore the auditor cannot make any calculations from that standpoint. Of course, there is the revenue from loans and discounts, but as the volume of loans and the rate of interest both fluctuate constantly, it cannot be used as a guide.

Owing to this inability to secure confirmation through the statistical accounts, it is evident that the proper way to prove the balance sheet is by independent verification of each item.

The audit should be made to correspond with the close of business on a certain day, and whenever it is practicable to arrange it, by all means let it be on the last day of the month. This will save much extra labor for the bookkeepers of the bank under audit, as well as those of its correspondents. It will also make it possible to utilize the regular monthly statements to depositors, for verification purposes. It is not necessary, however, to wait for the closing hour before making a beginning; on the contrary,



it is desirable that the work should be advanced as far as possible during the day on which the audit is begun.

An important part of the work may be accomplished in advance by counting the reserve during business hours, this should be gauged so that it will be completed by the time the tellers have balanced; in order that then their cash and cash items may be taken immediately in hand for verification.

After the reserve has been counted the auditor should place the money under lock, so as to have it under his personal control during the time occupied in verifying the tellers' balances. Should there be occasion to draw on the reserve while it is in the auditor's possession, he should not permit anyone else to have access to it, but should hand the money out himself.

On the first night of the audit a complete summary of the cash count is to be made, which shall show in separate groups the various items which enter into it. Of course the total must agree with the Cash Account in the general ledger.

A schedule is to be made of the cheques on other banks carried over by the tellers; this should show in detail the date of the cheque, names of the drawers and endorsers, the bank drawn on, and the amount. The auditor will see that these cheques are included in the "clearings" next day, and will also enclose a verification statement with each clearing house package, requesting endorsement as to correctness, and its return to the auditor's office.

The receptacles containing securities, discounted notes and collateral should be sealed over night with the auditor's private seal, awaiting examination the next day.

Verification statements should be dispatched on this night to all banks to whom balances are due, and should likewise be requested from depository banks and others from whom balances

are owing. Reports should also be requested from every bank holding drafts or cheques for collection on which no returns have been made.

By the time the counting of the cash has been completed, the assistants, who have meanwhile been balancing the general ledger, and drawing off the balances from the depositors' ledgers, will have finished their work. After agreeing the total of the depositors' ledgers with the controlling account, matters may be postponed safely until next day.

Next morning, while the auditor is constructing the balance sheet, one of his assistants should be preparing such schedules as will be required in connection with verification of the same.

On this day verification statements are to be sent to all depositors whose names appear on the schedule drawn off the night before. A sufficient force must be set at filling in the blank spaces of these forms to expedite the work properly.

In the first trial of this method, some judgment must be exercised in the preparation of these forms, which should be in the shape of a circular letter. They should state in effect that the bank management, with a view of conserving the best interests of its depositors, had inaugurated a system of having the bank audited periodically by independent auditors; that, in order to make these audits effective, it is necessary for each depositor to pass upon the correctness of the balance to his credit at the date of the audit, viz.: date, —————; amount, —————.

He should be requested to return the verification letter either endorsed "Correct," or with notation of any exceptions; these statements in all cases to be returned to the auditor, through return envelopes sent out with them. A suggestion should follow that the depositor's monthly statement is awaiting him at the bank, and that it is hoped he will call for and check the same over promptly.

The next item in order for direct verification is the notes held by the bank. The author has paid his compliments to bills receivable several times heretofore, and will only repeat that they must be verified by communication with both makers and endorsers. It is desirable that the verification statement be so constructed that it will indicate the original amount of the note, *less any partial payments*. It is believed that this form will more surely direct attention to any omission of credit for partial payment, than a mere statement of the net amount would do.

Unnecessary handling of the notes may be avoided by drawing up a schedule of the same, and examining the collateral at the time when the verification statements are being made out. The collateral is to be listed, and it is to be noted whether the values are sufficient to protect the loan; also whether it has been properly endorsed over to the bank.

Notes rediscounted, in attorneys' hands, or with banks for collection, must be verified by letter.

All securities held by the bank are to be inspected at one sitting.

Outstanding cash items in transit are to be verified from the remittance register as at date of the audit, and a list of those still outstanding at the close of the audit is to be incorporated in the report.

Outstanding certificates of deposit and unpaid dividend cheques are listed and the total compared with representative item on balance sheet.

By this time returns from statements sent out or requested will be coming in. Each day's arrivals should be checked against the respective schedules, and delinquents should be urged to send them in, so that all accounts may stand verified by the time the routine work of the audit is completed.

As intimated in the beginning of this article, the detail work relating to the books of account does not differ materially from that in other lines of business, therefore a study of Part II of this manual should provide all additional information necessary to a complete audit of a bank.



**GEORGE B. RENN**  
**PUBLIC ACCOUNTANT AND AUDITOR**

**REGULAR AND SPECIAL AUDITS**  
**EXAMINATIONS, INVESTIGATIONS**

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